Budget
2020–21

Budget Strategy and Outlook
Budget Paper No. 1
2020–21

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and

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Notes

(a) The following definitions are used in this Budget Paper:

- 'real' means adjusted for the effect of inflation;
- real growth in expenses and payments is calculated using the Consumer Price Index (CPI) as the deflator;
- the Budget year refers to 2020-21, while the forward years refer to 2021-22, 2022-23 and 2023-24; and
- one billion is equal to one thousand million.

(b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding:

- estimates under $100,000 are rounded to the nearest thousand;
- estimates $100,000 and over are generally rounded to the nearest tenth of a million;
- estimates midway between rounding points are rounded up; and
- the percentage changes in statistical tables are calculated using unrounded data.

(c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.

(d) The following notations are used:

-	nil
na	not applicable (unless otherwise specified)
$m	millions of dollars
$b	billions of dollars
nfp	not for publication
(e)	estimates (unless otherwise specified)
(p)	projections (unless otherwise specified)
NEC/nec	not elsewhere classified

(e) The Australian Capital Territory and the Northern Territory are referred to as 'the territories'. References to the 'states' or 'each state' include the territories. The following abbreviations are used for the names of the states, where appropriate:

NSW	New South Wales
VIC	Victoria
QLD	Queensland
WA	Western Australia
SA	South Australia
TAS	Tasmania
ACT	Australian Capital Territory
NT	Northern Territory

(f) In this paper the term 'Commonwealth' refers to the Commonwealth of Australia. The term is used when referring to the legal entity of the Commonwealth of Australia.

The term 'Australian Government' is used when referring to the Government and the decisions and activities made by the Government on behalf of the Commonwealth of Australia.

Budget Paper No. 1, *Budget Strategy and Outlook 2020-21*, is one of a series of Budget Papers that provides information to supplement the Budget Speech. A full list of the series is printed on the inside cover of this paper.

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Statement 1: Budget Overview

The 2020-21 Budget is an economic recovery plan that will create jobs, rebuild our economy and secure Australia's future.

COVID-19 has resulted in the most severe global economic crisis since the Great Depression.

In the space of just one month, more than one million Australians lost their jobs or saw their working hours reduced to zero.

Australia's economy contracted by 7.0 per cent in the June quarter. By comparison, there were falls of 12.2 per cent in New Zealand, 11.5 per cent in Canada, 13.8 per cent in France, and 19.8 per cent in the United Kingdom.

While the outbreak in Victoria set back Australia's recovery, further easing of containment measures, improving business and consumer confidence, and Government support are expected to see real GDP grow by 4¼ per cent in calendar year 2021. There remains substantial uncertainty around the global and domestic outlook.

The Government has responded to the health and economic crisis from a position of strength having returned the budget to balance for the first time in 11 years in 2018-19. The initial response to the COVID-19 pandemic provided an unprecedented $299 billion in overall support to keep businesses in business and Australians in jobs.

The fiscal position, with increased payments and decreased revenues as a result of COVID-19, has deteriorated significantly.

The underlying cash balance in 2020-21 is expected to be a deficit of $213.7 billion, equivalent to 11.0 per cent of GDP. The budget position is expected to improve across the forward estimates to a deficit of $66.9 billion in 2023-24 and to further improve over the medium term to a deficit of $49.5 billion, equivalent to 1.6 per cent of GDP in 2030-31.

Gross debt is expected to increase over the forward estimates before stabilising at around 55 per cent of GDP in the medium term. Net debt is expected to peak at 43.8 per cent of GDP in the forward estimates and then fall to 39.6 per cent by the end of the medium term.

The Budget is implementing the Government's COVID-19 Economic Recovery Plan by supporting Australians with additional COVID-19 response measures and driving job creation through the JobMaker Plan.

The Government is providing $25 billion in further temporary and targeted support under the COVID-19 Response Package and $74 billion under the JobMaker Plan. This brings the Government's overall response and recovery support to $507 billion since the onset of the pandemic, over half of which is direct economic support.

Key measures in the COVID-19 Response Package include:

- $15.6 billion in additional spending on the JobKeeper Payment in light of the additional restrictions in place for Victoria and announced changes to eligibility
- $2.6 billion for two additional Economic Support Payments of $250 to pensioners and other eligible recipients
- $1.7 billion to secure access to over 84.8 million doses of potential vaccine candidates developed by the University of Oxford and the University of Queensland.

The Government's five-year JobMaker Plan focuses on driving sustainable, private sector-led growth and job creation. Measures in this year's Budget as part of the JobMaker Plan support aggregate demand, help businesses to create jobs and are focused on returning Australians to work. Major initiatives include:

- more than $50 billion in tax relief to households and businesses over the forward estimates to create jobs
- increasing the Government's infrastructure investment pipeline by $10 billion to $110 billion over ten years
- $4 billion for a JobMaker Hiring Credit to give businesses incentives to take on additional employees that are aged 16 to 35 years old
- $1.2 billion to support 100,000 new apprentices and trainees with a 50 per cent wage subsidy
- $240.4 million through the Women's Economic Security Statement.

The Government is also continuing to guarantee the essential services on which Australians rely through the Budget. Key measures include:

- $1.6 billion for 23,000 additional home care packages
- $798.8 million for the National Disability Insurance Agency and NDIS Quality and Safeguards Commission
- over $550 million for a package supporting regional Australia.

Since the onset of the COVID-19 pandemic, the Government's economic support is expected to result in economic activity being 4½ per cent higher by 2021-22 and the peak of the unemployment rate being lower by around 5 percentage points than what otherwise would have occurred. Without the Government's economic support, the unemployment rate would have risen, and remained, above 12 per cent throughout 2020-21 and 2021-22.

The 2020-21 Budget reflects the Government's commitment to ensuring Australia emerges from the COVID-19 pandemic in a strong position.

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Statement 1: Budget Overview

Introduction

The 2020-21 Budget is an economic recovery plan that will create jobs, rebuild our economy and secure Australia's future.

COVID-19 has resulted in the most severe global economic crisis since the Great Depression. The Government has acted from a position of economic and fiscal strength, providing unprecedented levels of support to keep Australians in work and businesses in business.

The 2020-21 Budget provides additional support in response to the health and economic effects of the COVID-19 pandemic. The Budget also implements the next phase of Australia's COVID-19 Economic Recovery Plan to create jobs, drive sustainable, private sector-led growth while continuing to deliver the essential services on which Australians rely. The Government is committed to ensuring Australia emerges from the pandemic with a stronger, more resilient, and more competitive job-making and income-generating economy.

The global COVID-19 pandemic and associated containment measures are having profound impacts on the Australian economy. Real GDP contracted by 7.0 per cent in the June quarter 2020, and around 10 per cent of the labour force lost their jobs or were stood down on zero hours during the peak of the restrictions in April.

Real GDP is expected to fall by 3¾ per cent in calendar year 2020. While the outbreak and re-introduced restrictions in Victoria set back Australia's recovery, further easing of containment measures, improving business and consumer confidence and Government support are expected to see real GDP grow by 4¼ per cent in calendar year 2021. However, there remains substantial uncertainty around the global and domestic outlook, including around the spread of the virus, future outbreaks, as well as timing and efficacy of vaccines and other medical treatments.

At the 2019-20 Mid-Year Economic and Fiscal Outlook (MYEFO), the budget had returned to balance for the first time in 11 years and strengthening fiscal outcomes were anticipated over the forward estimates and medium term.

With the onset of the COVID-19 pandemic, the Government provided targeted and temporary support to replace lost incomes, maintain employee attachment to employers and the labour force, and support confidence, including through the JobKeeper Payment, Boosting Cash Flow for Employers, $750 cash payments to those on certain income support, and the Coronavirus Supplement. The Government has also allowed the automatic stabilisers, including lower tax receipts and higher unemployment benefit payments, to provide vital support to the economy.

As a result, the fiscal position has deteriorated, with substantial deficits and elevated debt levels expected over the forward estimates and into the medium term.

The underlying cash balance is now expected to be a deficit of $213.7 billion in 2020-21. The budget position is expected to improve over the forward estimates to an expected deficit of $66.9 billion in 2023-24.

In this Budget, the Government delivers substantial further support to secure a strong economic recovery and create jobs. The five-year JobMaker Plan will support private sector-led growth now and over the medium term, underpin stronger public finances over time, ensure taxes remain low as a share of the economy and strengthen Australia's capacity to respond to future shocks.

The Budget also includes further health measures in response to the COVID-19 crisis, including investments in potential COVID-19 vaccines, and provision of substantial new funding for COVID-19-related health, aged care, and mental health support, and continues to build on the Government's substantial ongoing commitment to guaranteeing the delivery of essential services.

The Government has revised its fiscal strategy to reflect the changed economic circumstances stemming from the COVID-19 recession and the need for additional support for the economy over the period ahead. The revised Economic and Fiscal Strategy supports the Government's objective of achieving a strong economy through sustainable private sector-led growth and job creation, underpinned by a strong government balance sheet. The first phase of the revised strategy is focused on supporting jobs, boosting business and consumer confidence and supporting growth throughout the economy. Once the unemployment rate is comfortably below 6 per cent, the focus will shift to strengthening our fiscal position by stabilising and then reducing debt over time as a proportion of GDP through ongoing fiscal discipline and reforms that boost economic growth.

Table 1: Budget aggregates

	Actual	Estimates				
	2019-20	2020-21	2021-22	2022-23	2023-24	Total(a)
Underlying cash balance ($b)(b)	**-85.3**	**-213.7**	**-112.0**	**-87.9**	**-66.9**	**-480.5**
Per cent of GDP	-4.3	-11.0	-5.6	-4.2	-3.0	
Net operating balance ($b)	**-92.3**	**-197.9**	**-103.4**	**-83.5**	**-58.5**	**-443.3**
Per cent of GDP	-4.7	-10.2	-5.1	-4.0	-2.7	

(a) Total is equal to the sum of amounts from 2020-21 to 2023-24.
(b) Excludes net Future Fund earnings before 2020-21.

Economic Outlook

The COVID-19 pandemic represents the greatest economic challenge since the Great Depression. Outbreaks are continuing to occur across most countries, even in those countries that were relatively successful in containing the virus in the first half of 2020. The spread of the virus and the restrictions implemented to contain it led to historic falls in economic activity and employment globally over the first half of 2020.

Australia's economic and health outcomes compare favourably with those of most other countries. Australia experienced a smaller fall in GDP than every major advanced economy over the first half of 2020. Nevertheless, the Australian economy is currently in recession as a result of the COVID-19 pandemic, its first in almost 30 years. Travel restrictions and other containment measures affected the ability of consumers and businesses to undertake their usual activities, and led to the largest fall in GDP on record in the June quarter 2020. At the peak of the restrictions, 10 per cent of the labour force lost their job or were stood down on zero hours.

The staged easing of containment measures has resulted in a noticeable pick-up in activity in most states and territories. However, the outbreak of the virus in Victoria has set back the recovery in that state. Looking forward, Australia's recovery is expected to be driven by a further easing of containment measures, along with improving business and consumer confidence. Activity will also be significantly supported by the Government's economic support, including new initiatives announced in the 2020-21 Budget that support spending and investment. In calendar year 2020, real GDP is expected to fall by 3¾ per cent, before growing by 4¼ per cent in calendar year 2021.

In line with the recovery in activity, labour market conditions have also improved, including through a marked reduction in the number of people working zero hours for economic reasons. The unemployment rate is forecast to reach 8 per cent in the December quarter 2020, reflecting headwinds from ongoing international and domestic border closures, the continuation of social restrictions in Victoria, ongoing restructuring amongst businesses and the impact of increased participation, before falling to 6½ per cent by the June quarter 2022 as economic activity recovers.

The Government's economic support since the onset of the COVID-19 pandemic, totalling $257 billion, is unprecedented and will continue to support households and businesses through the recovery. By increasing incomes and confidence, and supporting households and businesses to get back on their feet, the package of measures is expected to result in economic activity being 4½ per cent higher by 2021-22 and the peak of the unemployment rate being lower by around 5 percentage points than what otherwise would have occurred. Without the Government's economic support, the unemployment rate would have risen, and remained, above 12 per cent throughout 2020-21 and 2021-22.

Nominal GDP is forecast to fall by 1¾ per cent in 2020-21 and grow by 3¼ per cent in 2021-22. The increase in nominal GDP growth in 2021-22 is not expected to be as strong as the recovery in real GDP growth in that year. This reflects a fall in the terms of trade

as iron ore prices are assumed to decline to US$55 per tonne FOB by the end of the June quarter 2021. In addition, wage and price growth is expected to be subdued across the forecast period, reflecting spare capacity in the labour market.

There remains substantial uncertainty around the global and domestic outlook, as well as the extent of any longer-lasting economic effects from the pandemic. This stems largely from uncertainty around the spread of the virus and the success of health interventions, as well as uncertainty around the timing and efficacy of vaccines and other medical treatments. Uncertainty and the re-introduction of containment measures could substantially reduce activity.

Table 2: Major economic parameters[(a)]

	Outcome	Forecasts			
	2019-20	2020-21	2021-22	2022-23	2023-24
Real GDP	-0.2	-1 1/2	4 3/4	2 3/4	3
Employment	-4.3	2 3/4	1 3/4	1	1 3/4
Unemployment rate	7.0	7 1/4	6 1/2	6	5 1/2
Consumer price index	-0.3	1 3/4	1 1/2	1 3/4	2
Wage price index	1.8	1 1/4	1 1/2	2	2 1/4
Nominal GDP	1.7	-1 3/4	3 1/4	4 1/2	5

(a) Real GDP and nominal GDP are percentage change on preceding year. The consumer price index, employment, and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; and Treasury.

Fiscal Strategy and Outlook

The Government is focused on cushioning the Australian economy from the impacts of the COVID-19 pandemic. In this Budget, the Government is committing $98 billion in new response and recovery measures. This brings the Government's overall support in response to the COVID-19 pandemic to $507 billion, including balance sheet measures. The 2020-21 Budget lays the foundation for a strong economic recovery.

Australia entered the COVID-19 recession from a position of fiscal strength, which has allowed the Government to provide unprecedented levels of support. The underlying cash balance is now expected to be a deficit of $213.7 billion (11.0 per cent of GDP) in 2020-21, improving over the forward estimates to an expected deficit of $66.9 billion (3.0 per cent of GDP) in 2023-24.

Taxation receipts are expected to be $55.2 billion lower in 2020-21 than estimated at the 2019-20 MYEFO, and $283.5 billion lower over the four years to 2023-24.

Reflecting the unprecedented levels of fiscal support, compared with the 2019-20 MYEFO, total nominal payments are expected to increase by $166.9 billion in 2020-21 and by $237.0 billion over the forward estimates. Due to the temporary and targeted nature of COVID-19 response measures the payments-to-GDP ratio is

expected to initially increase to 34.8 per cent in 2020-21, before decreasing to 26.9 per cent by 2023-24 as the economy grows more strongly.

Gross debt is expected to be 44.8 per cent of GDP at 30 June 2021, increasing to 51.6 per cent of GDP at 30 June 2024. Gross debt is expected to stabilise at around 55 per cent of GDP in the medium term. Net debt is expected to be 36.1 per cent of GDP at 30 June 2021 and peak at 43.8 per cent of GDP at 30 June 2024. Net debt is then projected to fall over the medium term to 39.6 per cent of GDP at 30 June 2031.

The Government's response to the COVID-19 pandemic has been temporary, targeted and proportionate to the shock, and has used existing delivery mechanisms where possible. The Government will continue to maintain budget and fiscal flexibility to respond to the evolving impacts of the COVID-19 pandemic.

The Government has revised its Economic and Fiscal Strategy to reflect the changed circumstances and the need for additional fiscal support for the economy over the period ahead. The revised strategy aims to drive sustainable, private sector-led growth and job creation.

The strategy will operate in two phases, to provide flexibility in response to changing economic conditions. The COVID-19 Economic Recovery Plan forms the first phase of the strategy, and seeks to promote employment, growth and business and consumer confidence. It will remain in place until the unemployment rate is comfortably below 6 per cent. The second phase of the strategy will be governed by the Government's medium-term fiscal objectives. Future adjustments in the fiscal stance will focus, in the first instance, on ensuring the economic recovery is strong, and over the medium term on stabilising and then reducing gross and net debt as a share of GDP.

COVID-19 Economic Recovery Plan

The 2020-21 Budget progresses the Government's plan for Australia's economic recovery.

The COVID-19 Economic Recovery Plan, which is also reflected in the updated Economic and Fiscal Strategy, reflects the Government's objective to return Australians to work and boost prosperity as Australia emerges from the COVID-19 crisis.

The COVID-19 Economic Recovery Plan has two elements:

- The Government's COVID-19 response, which continues to be tailored to each phase of the crisis, with temporary, targeted measures already deployed to support recovery and assist those in need through additional support provided in this Budget.

- The five-year JobMaker Plan, which focuses on driving sustainable, private sector-led growth and job creation, recognising that a stronger economy will strengthen the budget and ensure Australia is well placed to respond to future shocks.

The 2020-21 Budget provides a further $98 billion in support under the Economic Recovery Plan. This includes $25 billion in further measures in response to the health and economic effects of the COVID-19 pandemic and $74 billion under the JobMaker Plan to drive the economic recovery.

The Government is also continuing to guarantee the provision of essential services, which reinforces the Economic and Fiscal Strategy and economic recovery. The 2020-21 Budget includes substantial new funding for health and aged care, and measures to enhance Australia's resilience to natural disasters, as well as funding to continue to keep Australians safe.

Supporting Australians through COVID-19

The 2020-21 Budget includes additional temporary and targeted support in response to the COVID-19 pandemic.

The Government is well positioned to continue to respond to developments in the COVID-19 pandemic. Effectively managing the health response remains the highest priority and will continue to underpin Australia's economic recovery. The Government is being led by health advice to sensibly re-open the economy and get people back into jobs while supporting those still affected by health restrictions and protecting against further spread of the virus.

The Government will ensure Australian families, workers and businesses continue to get the support they need as circumstances change.

COVID-19 Health Response

Protecting the health of Australians during the COVID-19 pandemic

The Government is ensuring Australia's high-quality health system is equipped to respond to COVID-19. This Budget includes measures to provide ongoing access through to March 2021 for essential health services such as telehealth and the home medicines service. This continues key elements of Australia's COVID-19 suppression strategy through funding testing and respiratory clinics and securing access to vaccines and treatments when they are available.

The Government is providing over $750 million to support the continuation of COVID-19 testing, critical to the suppression strategy, including for essential workers in industries like aged care. The Government is also providing $170.8 million for the continued operation of up to 150 dedicated respiratory clinics to manage and diagnose COVID-19 cases, ensuring access to safe assessment and testing for all Australians, including regional and remote communities.

The Government is continuing to support our hospitals to respond to COVID-19 by providing $1.1 billion to states and territories through a funding agreement on COVID-19 Response. This is in addition to the $3.7 billion already provided under the agreement and includes funding to ensure private hospital capacity is available for the health response.

To ensure ongoing access to essential health services, particularly for vulnerable groups such as the elderly or those with chronic conditions, or for people experiencing lockdowns, the Government is providing $111.6 million to support the continuation of temporary MBS telehealth services for GP consultations, mental health, allied health and specialist services.

Supporting access to COVID-19 vaccines

The Government's COVID-19 vaccine and treatment strategy supports early access to, and delivery of, safe and effective COVID-19 vaccines and treatments as soon as they become available. The Government will provide $1.7 billion over two years from 2020-21 to secure access to over 84.8 million doses of potential vaccine candidates developed by the University of Oxford and the University of Queensland. The Government is also investing $123.2 million to join the international COVAX facility, to provide Australia access to a large portfolio of vaccine candidates around the world.

To ensure Australia is well prepared to deliver a potential vaccine, the Government is providing $24.7 million to purchase vaccine needles, syringes and sharps disposal containers as well as ensuring the supply and storage logistics within the National Medical Stockpile.

Supporting Australians' mental health and wellbeing

The Government recognises the mental health impact of COVID-19 on individuals and communities and is committed to making ongoing support available. The Government will provide $100.8 million over two years from 2020-21 to ensure people with a mental health care plan can access up to 10 additional Medicare-subsidised individual psychological therapy sessions, a doubling of current sessions. In response to the second wave in Victoria, the Government has provided a further $47.3 million to ensure people in Victoria have the mental health support they need. This includes additional funding for digital and telephone counselling, which will provide access to 24/7 services particularly for young people and vulnerable populations. Fifteen dedicated mental health clinics will also be established across Victoria, with 9 clinics in greater Melbourne and 6 in regional Victoria. These clinics will provide immediate coordinated mental health care.

This additional support builds on the Government's increased investment in mental health and suicide prevention, and brings the investment for 2020-21 to $5.7 billion.

Additional funding to support the aged care sector's response to COVID-19

The Government is continuing to ensure older Australians have access to better quality aged care with record funding of $23.8 billion in 2020-21. Since the pandemic began, the Government has provided $1.6 billion to support care recipients, providers and workers to respond to COVID-19 (gross of tax receipts).

Additional funding provided in the Budget includes:

- $245 million to extend the COVID-19 Supporting Resident Care Supplement to support aged care providers to meet additional costs associated with COVID-19, including infection control training
- $205.1 million for the Workforce Retention Bonus Payments for aged care workers, in recognition of the challenges they face delivering frontline aged care services (gross of tax receipts); and
- $103.4 million to extend the Aged Care COVID-19 preparedness measure which supports aged care providers experiencing a COVID-19 outbreak, including funding extra surge staff for emergency deployment.

Additional funding to support the disability sector's response to COVID-19

The Government is protecting people with disability and those who care for them from COVID-19. Additional funding provided in this Budget includes $7.5 million to provide a Worker Mobility Reduction Payment to support disability residential service providers in Victoria to continue to provide critical services to people with disability. This is in addition to working with the Victorian Government to establish a Victorian Disability Response Centre to support information sharing and coordination to quickly respond to outbreaks.

COVID-19 Economic Response

JobKeeper Payment Extension

The JobKeeper Payment has been instrumental in supporting job retention, maintaining the link between employers and their employees and supporting the cash flow of distressed businesses, as well as providing income support to eligible employees throughout COVID-19. It is covering a large proportion of the economy, currently supporting around 3.5 million individuals in over 900,000 businesses. To date, JobKeeper payments have totalled around $60 billion in the first 11 JobKeeper Payment fortnights and have supported over 3.8 million individuals in over 1 million businesses and not-for-profits.

The JobKeeper Payment extension announced on 21 July 2020 provides continued support until 28 March 2021, with the Payment targeted to those businesses that continue to be most significantly affected by the economic downturn. The level of the JobKeeper Payment is being tapered to enable businesses to transition towards their longer-term plans and a two-tiered payment is also being introduced to better match the Payment with the incomes of employees.

On 7 August 2020, in light of the restrictions in place for Victoria, the Government announced changes to the JobKeeper Payment and its extension which expanded employee eligibility and eased the eligibility criteria for businesses.

It is estimated that the total cost of the JobKeeper Payment will be $101.3 billion over 2019-20 and 2020-21. As the JobKeeper Payment is demand-driven, estimates will continue to be updated over the life of the program. In 2019-20, $20.6 billion in JobKeeper payments were received by businesses and not-for-profits, and around $40 billion in JobKeeper payments have been made in 2020-21 to date.

Supporting pensioners

The Government will provide $2.6 billion for two additional Economic Support Payments of $250 to pensioners and other eligible recipients to assist them through the ongoing financial challenges they are facing as a result of COVID-19. These payments are in addition to the two previous $750 economic support payments and will benefit around 5.1 million eligible pensioners, veterans, low-income families and eligible concession card holders.

Early childhood education and care support

The Government is providing support for families and child care providers by extending targeted funding for child care services in Victoria following the end of the national Transition Package arrangements on 27 September 2020.

The Government is introducing a Victorian recovery payment equivalent to 25 per cent of pre-COVID revenue through to 31 January 2021. The payment will be conditional on maintaining a fee freeze at pre-COVID-19 levels and child care services maintaining the Employee Guarantee protections for relevant employees.

The recovery payment is expected to support up to 3,127 child care services in Victoria. The Government is also extending the easing of the Activity Test requirements for all Australian families through to 4 April 2021 so that they can continue to access the hours of care they received before the pandemic.

JobMaker Plan

The JobMaker Plan is a key element of the Government's COVID-19 Economic Recovery Plan. Its objective is for Australia to emerge from the pandemic with a more resilient and competitive economy that drives a strong recovery in the labour market. It complements the Government's updated Economic and Fiscal Strategy *(see Budget Statement 3: Fiscal Strategy and Outlook)*.

The 2020-21 Budget and JobMaker Plan builds on initiatives included in the July 2020 *Economic and Fiscal Update* (July Update). JobMaker Plan measures in this Budget include:

- supporting aggregate demand by supporting households with personal tax relief worth $17.8 billion and increasing the Government's infrastructure investment pipeline by $10 billion to $110 billion over ten years
- supporting business investment to create jobs, particularly through temporary investment tax incentives worth $26.7 billion for temporary full expensing and $4.9 billion for temporary loss carry-back, and by improving the ease of doing business by reducing regulatory burdens
- supporting Australians back into jobs through a $4 billion JobMaker Hiring Credit to help young people access job opportunities, assisting workers to improve their skills, and helping job seekers reconnect with employment
- providing opportunities for Australian industries, including through a Modern Manufacturing Strategy and by investing in the future of low-emissions technologies and Australia's research sector.

The JobMaker Plan will drive a strong rebound in employment through initiatives that encourage and reward effort and programs that incentivise businesses to create jobs.

Supporting aggregate demand to create jobs

The Government is delivering assistance to Australian households and businesses through the tax system to stimulate the economy and support the creation of jobs. This Budget will reduce the personal income tax burden on individuals and support businesses that invest or suffer temporary tax losses as a result of the economic impacts of COVID-19.

Bringing forward personal tax relief

For the third year in a row, the Government will deliver tax cuts to assist hard-working Australians. This will support the economy through the recovery phase by boosting consumption and, to the extent that households save more or pay down debt, improving households' balance sheets and their ability to consume in the future.

The Government will bring forward Stage 2 of the Personal Income Tax Plan from 2022-23 to 2020-21. This stage involves: increasing the low income tax offset (LITO) from $445 to $700; increasing the top threshold of the 19 per cent bracket from $37,000 to $45,000; and increasing the top threshold of the 32.5 per cent bracket from $90,000 to $120,000.

These changes will reduce the amount of tax withheld through pay-as-you-go withholding obligations, which means that the tax relief will flow faster to individuals in their regular pay packets. As individuals retain more of their earnings, the tax cuts will support the economic recovery.

As the Personal Income Tax Plan is already legislated, bringing forward these tax cuts will have no ongoing budget impact outside the forward estimates period.

The Government will also provide additional targeted support to low- and middle-income Australians. In 2020-21, low- and middle-income earners will benefit from bringing forward the tax cuts in Stage 2 of the Personal Income Tax Plan, as well as a one-off additional benefit from the low and middle income tax offset (LMITO). The one-off additional LMITO is worth up to $1,080 for individuals or $2,160 for dual income couples. The LMITO was to be removed with the commencement of Stage 2, but the one-off additional benefit in 2020-21 will provide support to households and stimulus to the economy during the recovery.

Table 3: Individual tax relief from bringing forward Stage 2 of the Personal Income Tax Plan and providing the additional LMITO in 2020-21 compared with 2017-18

	2017-18	2020-21		
Taxable Income	**Tax Liability**	**Tax Liability**	**Change in Tax**	
($)	**($)**	**($)**	**($)**	**(%)**
40,000	4,947	3,887	-1,060	**-21.4**
60,000	12,147	9,987	-2,160	**-17.8**
80,000	19,147	16,987	-2,160	**-11.3**
100,000	26,632	24,187	-2,445	**-9.2**
120,000	34,432	31,687	-2,745	**-8.0**
140,000	42,232	39,667	-2,565	**-6.1**
160,000	50,032	47,467	-2,565	**-5.1**
180,000	57,832	55,267	-2,565	**-4.4**
200,000	67,232	64,667	-2,565	**-3.8**

Note: The table provides stylised cameos based on the tax payable for an individual, excluding any transfer payments. The tax liability and tax relief are calculated only taking into account the basic tax scales, LITO, LMITO, and the Medicare levy (with 2017-18 Medicare levy single low-income threshold). Actual outcomes for many individuals and households would differ.

The LMITO has already provided a benefit of up to $1,080 for individuals, or $2,160 for dual income families, in 2018-19 and 2019-20. The maximum benefit is received by those with taxable income between $48,000 and $90,000.

Together, these changes deliver tax relief to low- and middle-income earners for the 2020-21 income year of up to $2,745 for individuals and up to $5,490 for dual income families, compared with 2017-18 rates and thresholds.

In total, these tax cuts deliver $17.8 billion in additional tax relief over the forward estimates, including $12.5 billion over the next 12 months. An estimated 11.6 million individuals will receive a tax cut in 2020-21 compared with 2017-18 settings. This tax relief will help the economy recover from the impacts of the COVID-19 crisis.

Reducing personal income taxes will increase the disposable income of Australian households, allowing them to spend more, which will support aggregate consumption.

Improved confidence and greater consumption will support businesses, creating opportunities to increase hiring and undertake further investment. This will support jobs and growth, and bolster the recovery from the economic impacts of the COVID-19 crisis.

These tax cuts are estimated to increase GDP by $3.5 billion in 2020-21 and $9 billion in 2021-22 while creating an additional 50,000 jobs by the end of 2021-22.

The Government remains committed to a more competitive and efficient tax system. Stage 3 of the Personal Income Tax Plan will deliver structural reform to the personal income tax system from 1 July 2024 as legislated. By abolishing the 37 per cent marginal tax rate and reducing the 32.5 per cent marginal tax rate to 30 per cent, Stage 3 will simplify and flatten the marginal tax rates. In 2024-25, it is projected that around 95 per cent of taxpayers will face a marginal tax rate of no more than 30 per cent.

Table 4: New personal income tax rates and thresholds

Rate (%)	2017-18 tax thresholds Income range ($)	Current tax thresholds From 1 July 2018 Income range ($)	**New tax thresholds From 1 July 2020 Income range ($)**	Rate (%)	New tax thresholds From 1 July 2024 Income range ($)
Tax free	0 — 18,200	0 — 18,200	**0 — 18,200**	**Tax free**	0 — 18,200
19	18,201 — 37,000	18,201 — 37,000	**18,201 — 45,000**	**19**	18,201 — 45,000
32.5	37,001 — 87,000	37,001 — 90,000	**45,001 — 120,000**	**30**	45,001 — 200,000
37	87,001 — 180,000	90,001 — 180,000	**120,001 — 180,000**	**-**	-
45	>180,000	>180,000	**>180,000**	**45**	>200,000
LITO	Up to 445	Up to 445	**Up to 700**	**LITO**	Up to 700
LMITO	-	Up to 1,080	**Up to 1,080***	**LMITO**	-

*The LMITO will only be available until the end of the 2020-21 income year.

Infrastructure investment supporting jobs and economic recovery

The Government is increasing spending on its record infrastructure pipeline from $100 billion to $110 billion over the next 10 years with a COVID-19 infrastructure package that will provide significant near-term investments in major road and rail projects, road safety and community infrastructure. The Government will provide an additional $10.0 billion in funding towards projects over the next four years bringing total commitments for new and accelerated projects since the onset of the COVID-19 pandemic to $14.0 billion across the forward estimates.

Projects currently under construction are supporting around 100,000 direct and indirect jobs over their construction periods, with the Government's additional investments since the onset of COVID-19 supporting a further 40,000 direct and indirect jobs. These commitments provide a strong foundation across Australia for the economic recovery from COVID-19.

Over the next two years, the Government will provide significant stimulus through the new $2 billion Road Safety Program, and an additional $1 billion of funding for the recently established Local Roads and Community Infrastructure Program taking the size of the program to $1.5 billion.

These stimulus programs will support over 10,000 direct and indirect jobs across all states and territories with the funding to be made available under a 'use it or lose it' mechanism to incentivise states and territories to prioritise funding which can be delivered in the short term. The Road Safety Program will reallocate funding to those

states and territories that have fully used their previous allocations while local governments under the Local Roads and Community Infrastructure Program will have until 31 December 2021 to spend their allocation. This will ensure the benefits of the economic stimulus are maximised.

The Government is making additional commitments for new projects in each of the states and territories including:

- $2.7 billion for New South Wales, including $603 million for the New England Highway Singleton Bypass and Bolivia Hill Upgrade, and an additional $491 million for the Coffs Harbour Bypass

- $1.1 billion for Victoria, including $528 million for upgrades to the Shepparton and Warrnambool rail lines

- $1.3 billion for Queensland, including $750 million for Stage 1 of the Coomera Connector

- $1.1 billion for Western Australia, including $227 million for METRONET — High Capacity Signalling and Morley Ellenbrook Line, and $87.5 million for Reid Highway Interchanges — West Swan Road

- $625 million for South Australia, including $200 million for the Hahndorf Township Improvements and Access Upgrade, and $136 million to progress the Main South Road Duplication Stage 2

- $360 million for Tasmania, including $65 million for the Tasman Bridge Upgrade

- $190 million for the Northern Territory, including $120 million for the Carpentaria Highway Upgrade, and $46.6 million for National Network Highway Upgrades

- $155 million for the Australian Capital Territory, including $87.5 million for the Molonglo River Bridge.

City Deals with a total Commonwealth contribution of $7.6 billion are being delivered in Townsville, Launceston, Western Sydney, Darwin, Hobart, Geelong and Adelaide. Building on this success, the Government is committing $328 million for a Perth City Deal that will support long-term growth by attracting people back into the city creating flow-on benefits for small business, including international students and tourism.

Housing

The Government is building on the success of the First Home Loan Deposit Scheme by extending the Scheme by a further 10,000 places that will allow first home buyers to obtain a loan to build a new dwelling or purchase a newly built dwelling with a deposit of as little as 5 per cent. The Government is enabling the National Housing Finance and Investment Corporation to issue an additional $1 billion worth of bonds to attract

institutional investment to increase the supply of affordable housing. These reforms complement the Government's announced changes to Australia's lending laws, which will support the flow of credit to housing, reducing the time and cost associated with accessing credit for consumers.

Supporting business to create jobs

The Government is also supporting the economic recovery by helping businesses to invest, grow and create jobs.

Business cash flow support

In this Budget, the Government will deliver significant cash flow benefits through the tax system to businesses that invest, as well as otherwise profitable businesses that have experienced losses as a result of COVID-19.

Temporary full expensing

The Government is introducing temporary full expensing of depreciable assets for businesses with turnover below $5 billion.

There is no limit on the value of assets eligible for full expensing.

Around 3.5 million businesses — over 99 per cent of businesses — employing around 11.5 million workers will be eligible for this measure.

This significantly builds upon the enhanced $150,000 instant asset write-off and the Backing Business Investment measures introduced on 12 March 2020 as part of the Government's response to COVID-19.

The measure will apply to eligible assets purchased from 7:30pm (AEDT) on 6 October 2020 and first used or installed by 30 June 2022. The cost of improvements to existing eligible depreciable assets made during this period can also be deducted in full.

Full expensing reduces the after-tax cost of new investment and provides a cash-flow benefit for businesses that acquire eligible assets. The time-limited nature of the measure will provide a strong incentive for businesses to bring forward investment projects before it expires. The measure is estimated to apply to around $200 billion worth of investment. This will help create jobs and increase economic activity as the economy recovers from COVID-19, as well as boost Australia's productive capacity over the longer run, leading to higher wages and living standards for all Australians. Businesses investing in new technology and new ways of operating will also be essential for firms' ability to adapt to the structural changes induced by COVID-19.

Temporary loss carry-back

To complement the full expensing measure, companies with turnover up to $5 billion will also be able to temporarily offset tax losses against previous profits and tax paid.

This will help companies that were profitable and tax-paying but now find themselves in a loss position due to the COVID-19 pandemic. By allowing them to access their losses earlier, by way of a cash refund, it will provide a needed cash flow boost to keep their business running, retain their workers and invest with confidence in the future.

Companies with turnover up to $5 billion can apply tax losses incurred during the 2019-20, 2020-21 and/or 2021-22 income years to offset tax paid in 2018-19 or later income years. The tax refund will be available for eligible businesses when they lodge their 2020-21 and 2021-22 tax returns. This will help increase cash flow for businesses in future years and enable more businesses to take advantage of full expensing while it is available, to encourage more investment and further support Australia's economic recovery.

Combined, the temporary full expensing and temporary loss carry-back measures are estimated to deliver $31.6 billion in tax relief to businesses over the forward estimates, by bringing forward tax deductions or the utilisation of losses from future years.

Treasury estimates that these measures will boost GDP by around $2½ billion over 2020-21 and $10 billion over 2021-22 and create an additional 50,000 jobs by the end of 2021-22.

Research and Development Tax Incentive

The Government will invest an additional $2 billion through the Research and Development Tax Incentive to help innovative businesses that invest in research and development.

Improving the ease of doing business

A dynamic market-driven economy is crucial for the economic recovery and fundamental to the JobMaker Plan. The Government is undertaking a comprehensive deregulation agenda to improve the ease of doing business. This will drive growth and support Australian businesses to create jobs.

Reducing regulatory costs

The Government is giving businesses greater flexibility in how they comply with regulations and reducing the cost of compliance. The Government will support business dynamism by making permanent changes to allow companies to utilise technology to hold virtual AGMs and execute documents electronically. Virtual AGMs will allow companies to choose the best method of interacting with their shareholders. Allowing electronic execution of documents will drive efficiencies and improve the ease of doing business. Technology neutral regulation will also be the focus of a detailed evaluation of laws regulating corporations, credit, superannuation, insurance, banking, consumer protection and competition. More flexible record keeping requirements for Fringe Benefits Tax will substantially reduce the time employers and employees spend on compliance.

Insolvency reforms

The Government will implement insolvency reforms to help small businesses survive the economic impact of the COVID-19 pandemic. By reducing complexity, time and costs, a simplified restructuring process will encourage more Australian small businesses to restructure when in financial distress to improve their chances of survival. Where that is not possible, a simplified liquidation process will ensure greater returns to creditors and employees and allow assets to be quickly reallocated elsewhere in the economy, supporting productivity and growth. These processes will be available to incorporated businesses with liabilities of less than $1 million. Around 76 per cent of companies entering into external administration in 2018-19 had less than $1 million in liabilities. Of these, around 98 per cent are estimated to be businesses with fewer than 20 full-time equivalent employees. The reforms also enhance the capacity of the insolvency system to assist small businesses and manage the anticipated increase in the number of insolvencies.

Changes to responsible lending obligations

The Government is simplifying Australia's credit framework by removing responsible lending obligations for most credit products. The Government's reforms will make the credit application process easier for consumers and allow eligible borrowers to obtain credit faster, improve competition by making it easier for consumers to switch lenders and enhance access to credit for small business. The new regime will support the more efficient flow of credit in the economy by removing the current prescriptive framework and 'one-size-fits-all' approach to ensure credit assessments are attuned to the needs of borrower and credit products. Banks will continue to be regulated by APRA's prudential lending standards, which are principles-based, and will be replicated for non-bank lenders. The changes will also streamline consumers' engagement with lenders as lenders will be able to rely on the information provided by borrowers, effectively replacing the current practice of 'lender beware' with a 'borrower responsibility' principle. Responsible lending obligations for small amount credit contracts and consumer leases will be retained and laws strengthened to ensure the users of these products, typically more vulnerable consumers, are properly protected.

Accelerating digital transformation

The Government is introducing a number of measures to support businesses to survive and grow, and new businesses to emerge as the economy recovers from the effects of COVID-19. This includes the accelerated adoption of digital technologies to increase productivity and jobs growth and bring Australia closer to its goal of being a leading digital economy by 2030.

The Government will further accelerate and expand its plans to bring the benefits of adopting digital technologies to businesses and households.

The NBN Co's additional investment of $4.5 billion will bring ultra-fast broadband to millions of families and businesses across the economy over the next two years. A further $29.2 million will support the accelerated rollout of 5G.

Digital transformation will be enabled through more modern and responsive payments architecture, driven by a strategic review of the payments system.

The Government will accelerate the rollout of the Consumer Data Right in the banking sector and extend it into the energy sector. Support will be given to small business operators to take advantage of digital technologies. We will improve access to digital skills training.

All Commonwealth agencies will be required to have e-Invoicing capability, which will drive adoption amongst their suppliers. The Government will seek to similarly accelerate adoption of e-Invoicing in state and local government agencies and by the private sector.

The Government is investing a further $419 million to fund the full roll out of the Modernising Business Registers program to significantly streamline interactions with government by allowing businesses to quickly view, update and maintain their business registry data in one location. This will make it easier to start, run and close a business.

The Government will invest $256 million in the expansion of its Digital Identity system over the next two years. We will boost fintech trade and investment flows through a further investment of $9.6 million.

Busting congestion for agricultural exporters

The Government will invest $328.4 million over four years to bust congestion in the regulation of farm exports, making it easier for farmers to get their goods to market and helping rural Australia to recover from drought and COVID-19. This will develop an electronic export assurance capability and give farmers and exporters digital access to up-to-date market and export data. The package will deliver up to $1.2 billion in financial benefits over the decade to 2030. New agile export systems will make Australian firms more competitive in the world's export markets.

Simplified trade system

The Government will invest $28.6 million to support initiatives to modernise Australia's trade system and streamline border services, to reduce administrative complexity and improve the efficiency of international trade.

Simplifying the regulatory foundations of a future single trade window will be an important part of this work. At present, 28 agencies regulate trade at the border, applying more than 120 pieces of Commonwealth regulation. The single window will build on fundamental reform of trade regulations and processes and ultimately harness cost-effective IT systems, to make it easier for businesses to be a part of global supply chains.

This multi-year reform will improve the competitiveness of Australian exporters and lower costs for business and households. This will create jobs in Australia and make Australia a more attractive investment destination.

The funding will also support a pilot program to streamline the delivery of border services between the Australian Border Force and the Department of Agriculture, Water and the Environment, and take steps towards a new model for cargo screening, to improve both speed and security.

Supporting Australians back into jobs

The Government is supporting businesses to hire workers and apprentices, assisting workers to improve their skills, and helping job seekers to reconnect with employment.

JobMaker Hiring Credit

The JobMaker Hiring Credit will help to accelerate growth in employment by giving businesses incentives to take on additional employees that are aged 16 to 35 years old. Through the JobMaker Hiring Credit, the Government will help young people access job opportunities and rebuild their connection to the labour force as the economy recovers from the COVID-19 pandemic.

The JobMaker Hiring Credit will be available to employers for each new job they create over the 12 months from 7 October 2020 when they hire an eligible employee. Employers will be eligible for additional hires where the new employee is aged 16 to 35 years old and received JobSeeker Payment, Youth Allowance (Other) or Parenting Payment for at least one of the previous three months at the time of hiring. Employers will be eligible to receive the JobMaker Hiring Credit for up to 12 months from the commencement of each eligible employee. Eligible employers will receive $200 per week if they hire an eligible employee aged 16 to 29, or $100 per week if they hire an eligible employee aged 30 to 35. This will assist businesses to hire additional employees as they expand their organisation and will support young people to get back into work.

It is expected that around 450,000 positions for young Australians will be supported through the JobMaker Hiring Credit at an estimated cost of $4 billion from 2020-21 to 2022-23.

Growing Australia's skilled workforce

The Government is building on its JobTrainer Skills Package with further support to encourage new apprentices and trainees into training, and assist job seekers who lack basic language, literacy and numeracy skills to acquire these foundational skills.

The Government is investing further in Australia's training system and skills pipeline, through the $1.2 billion Boosting Apprenticeships Wage Subsidy to support 100,000 new apprentices and trainees. The wage subsidy will be paid for all commencements at businesses of any size from 5 October 2020 onwards, and will provide employers with

a 50 per cent subsidy, up to $7,000 per quarter, of the wages paid for new apprentices and trainees until 30 September 2021. This will ensure that apprenticeships and traineeships remain an important pathway into the workforce, and help meet the skills and employment needs of the economic recovery.

The Government is committing $49.5 million to fund an additional 14,485 places in the Skills for Education and Employment program to ensure new job seekers who lack basic language, literacy and numeracy skills can access the training and support they need. This training will act as an immediate and accessible pathway for job seekers who need it, and help ensure that all job seekers are able to access the upskilling and reskilling opportunities available under the JobTrainer Fund.

A more responsive higher education sector

The Government is investing $251.8 million over two years to support the delivery of 50,000 higher education short courses. Short courses will be provided online in areas such as teaching, health, science, information technology and agriculture and will provide faster training pathways and alternative study options for workers looking to retrain or upskill. Short courses provide additional options for students and the recently unemployed to engage with higher education across a range of fields and will help position Australia to move towards economic recovery by providing students with the skills employers need.

The Budget includes $298.5 million over four years to provide an additional 12,000 undergraduate Commonwealth Supported Places in 2021 prioritised according to labour market need, skills gaps, industry engagement and expected student demand. The Government's additional investment will support school-leavers and job seekers through the COVID-19 pandemic, and will help accelerate growth, job creation and drive economic recovery, better connecting job seekers to employment and training.

Connecting job seekers to employment and training

The Government is implementing a range of measures to help connect job seekers to employment and training opportunities. As part of the transition to the New Employment Service Model, the Government is investing more to scale up employment services so that job seekers can fill the current and emerging vacancies. The Government is investing $295.9 million to deliver a new Digital Employment Services platform that will assist job seekers in managing their own way into employment and training. The Government is also investing $183.1 million to provide responsive and individualised support to online job seekers, including through a Digital Services Contact Centre. Further, the Government will provide $21.9 million to leverage the youth-focused Transition to Work (TtW) program to assist young people to support their transition to and retention in employment.

The Government is investing $62.8 million to establish a new Local Jobs Program to connect job seekers to local employment opportunities. This includes establishing a future 14 Employment Facilitators, in addition to the existing 11 facilitators, in the most

disadvantaged Employment Regions across Australia. The program will leverage the National Skills Commission, National Careers Institute and employment service providers to improve regional and national awareness of local labour markets and skills training needs.

Women's economic security

The Government is investing in women's economic security and supporting increased female workforce participation through the 2020 Women's Economic Security Statement. The Government will provide $240.4 million over five years from 2020-21.

Women will be supported through a range of employment programs, including the $50 million Women@Work Plan, which will scale up the Women's Leadership and Development Program to support women's job creation, including in male-dominated industries. The Government is establishing a Respect@Work Council to help address sexual harassment in the workplace. The Boosting Female Founders initiative will be expanded, supporting 282 start-ups and 4,300 mentoring engagements for female entrepreneurs. The Government is providing $25.1 million over five years to assist 500 women into STEM careers through a STEM Industry Cadetship or Advanced Apprenticeship, as well as $10 million in grants for the Women in STEM and Entrepreneurship (WISE) grants program to deliver at least 20 additional projects to increase women's participation in the STEM sector.

The Government is supporting new parents whose employment was interrupted by COVID-19. As a result, 9,000 individuals will gain eligibility for Parental Leave Pay and 3,500 for Dad and Partner Pay. This change will extend the work test period from 13 months prior to the birth or adoption of the child to 20 months prior, enabling access to Paid Parental Leave (PPL) where eligibility has been impacted by COVID-19. The Government is supporting disadvantaged parents on Parenting Payment through a $24.7 million expansion of the ParentsNext program.

Opportunities for Australian industries

Modern Manufacturing Strategy

The Government has released its Modern Manufacturing Strategy, which focuses on driving growth, delivering higher value jobs and improving the resilience of supply chains. To support the strategy, the Government is committing $1.3 billion to the Modern Manufacturing Initiative. The Initiative will focus on six National Manufacturing Priorities and invest in projects that improve collaboration between businesses, researchers and investors, support the commercialisation of research into market-ready products, and help our local manufacturers connect their goods and services to global value chains.

The Government is committing $107.2 million to the Supply Chain Resilience Initiative. This will support work with industry to map our supply chains, identify vulnerabilities, and provide targeted funding where necessary to increase our resilience. The Government is also providing $52.8 million for a second round of funding for the

Manufacturing Modernisation Fund. This will support our economic recovery efforts by fast-tracking shovel-ready, transformative investments in innovative technologies and processes by Australian manufacturers. A further $50 million is being provided to the Industry Growth Centres initiative for projects that support the National Manufacturing Priorities.

Defence economic support

The Government is bringing forward $1 billion in projects to support jobs for Australians in the Australian defence industry sector.

Accelerating investments in important Australian Defence Force (ADF) capability development projects, infrastructure and national estate works programs will support Australian jobs, at the same time as supporting Defence in responding to changes in our strategic environment.

Supporting the future of Australia's research sector

The Government is investing in the future of Australia's research sector by helping to reform the sector, while also providing immediate support to give confidence to universities.

To help drive change in universities, the Government will undertake a scoping study of potential options to accelerate the translation and commercialisation of university research. These options will include new partnerships between universities and industry and opportunities for investments, demonstrating the Government's leadership and commitment to commercialise non-medical research.

The Government is providing $1 billion in new research funding to the university sector in 2020-21, to safeguard Australian researcher effort. This investment will help avoid lasting damage to the research sector and ensure research remains an important platform for economic recovery.

Building on the Government's successful pilots, the Government is investing $41.6 million over four years to establish a Strategic University Reform Fund which will encourage universities to undertake innovative reform projects that align with priority areas within local communities. The Government is also delivering the 2020 update of the $1.9 billion Research Infrastructure Investment Plan which will ensure that investment in national research infrastructure is being maintained to support world leading research and attract international collaboration.

The Government is also providing an additional $459.2 million over four years to the Commonwealth Scientific and Industrial Research Organisation. It includes $5 million to enhance agricultural and grazing research facilities. This funding is in response to the impact of COVID-19 on its commercial activities and ensures that it can continue essential scientific research.

Investing in lower-emissions technologies

The Government has released the first Low Emissions Technology Statement. It provides a roadmap accelerating the deployment of low emissions and reliable technologies. This builds on Australia's success in developing and commercialising renewable energy technologies at scale, such as solar photovoltaics.

The Australian Renewable Energy Agency's (ARENA) Large Scale Solar round in 2015 transformed the market. Only four projects had been built prior to the round, all with government grants. Subsequently, there have been 43 projects delivered on a commercial basis, without ARENA grants. It is early investments like these that have contributed to the renewable energy boom that has seen $30 billion invested since 2017.

The Low Emissions Technology Statement has identified the following priority technology goals for Australia: clean hydrogen, energy storage, both low-emissions steel and aluminium; Carbon Capture and Storage; and soil carbon.

To support these priority technologies, the Government announced a $1.9 billion package in this Budget, of which $1.6 billion will be provided to ARENA. This investment will be used to fund research and development to accelerate these new and emerging technologies, and to co-fund investments with the private sector to support businesses to adopt technologies that increase productivity and reduce emissions.

In addition, ARENA and the Clean Energy Finance Corporation will have their investment remits expanded to enable them to help deliver the Low Emissions Technology Statement.

Fuel Security

The Government's $250.7 million fuel security plan will increase the resilience of the Australian economy to international fuel supply shocks and help secure jobs in fuel-centric industries. Onshore diesel storage, essential for critical services, will be increased by 40 per cent. The Government will contribute $203.7 million to support the construction of new diesel fuel storage. To help ensure their continued operation, onshore refineries will receive a production payment recognising the fuel security benefits these facilities provide.

Gas-fired recovery

The Government will provide $52.9 million to support a gas-fired recovery. To unlock Australia's vast gas reserves, $28.3 million will be invested in five strategic basin plans to help the manufacturing sector and ensure affordable and reliable gas. The first National Gas Infrastructure Plan will identify priority projects and critical infrastructure needs, ensuring gas is delivered where it is needed. Key reforms will create a more competitive and transparent east coast gas market, deliver an efficient pipeline and transportation market and empower gas customers.

Guaranteeing Essential Services

Especially in these challenging times, the Government remains committed to guaranteeing the essential services on which Australians rely. This includes continuing to bolster Australia's health care system and aged care services to look after all Australians, especially the most vulnerable, in addition to the Government's response to the COVID-19 pandemic. The Government is also boosting Australia's resilience, keeping Australians safe, and supporting communities to be prepared for the impacts of natural disasters like drought and flood.

Ensuring Government services

A strong healthcare system

The Government is continuing to deliver essential services which Australians expect and rely on. This includes significant investment in a strong healthcare system. An estimated $93.8 billion is being provided to the health system in 2020-21, with funding growing to $97.5 billion in 2023-24.

The Government is continuing to provide affordable access to new medicines through the Pharmaceutical Benefits Scheme (PBS). By investing $375.5 million over four years from 2020-21 the Government is reducing out of pocket costs for new and amended listings on the PBS, including medicines to treat leukaemia, melanoma, Parkinson's disease and ovarian cancer, amongst others.

The Government will continue to guarantee the listing of new medicines on the PBS, through the PBS New Medicines Funding Guarantee, which provides uncapped funding for, and safeguards the listing of, new medicines on the PBS. All existing items on the PBS have their funding guaranteed through the Medicare Guarantee Fund, which is established in legislation and secures ongoing funding for all medicines listed on the PBS.

Simpler and more affordable private health insurance

The Government will provide $19.5 million over four years from 2020-21 to improve access to and affordability of private health insurance, including by increasing the maximum age of dependents allowed under private health insurance policies from 24 to 31 years, and removing the age limit for dependents with disability. Funding will be provided to enhance the Medical Costs Finder website, to include voluntary fee disclosure for specialists, increase the transparency of out-of-pocket costs and assist consumers to choose a specialist. The Government will work with insurers to make home and community-based care more accessible through private health insurance.

Investing in schools and students

The Government is continuing to invest in our schools, with an investment of $309.9 billion to the end of 2030. The Government's recurrent annual funding for schools has grown 58 per cent since 2014, from $13.8 billion in 2014 to $21.8 billion in 2020, and

will grow to $34 billion in 2030. This record funding for Australian schools will ensure all students are prepared for the future.

In this Budget, the Government is investing $146.3 million over five years in programs which will improve educational outcomes for vulnerable and disadvantaged young Australians and ensure those leaving school have the skills needed to help drive the economic recovery. These measures will support young, disadvantaged Australians impacted by the COVID-19 pandemic and recognise the significant disruption to learning experienced by school children, parents, teachers and schools this year.

Over 76,000 young Australians will be supported to complete secondary school and move into work, training or further study, and funding for the Smith Family's Let's Count program will help around 120,000 3 to 5 year-olds to improve their numeracy skills.

In addition, the Government is committing $453.2 million until the end of 2021 to support continued access to 15 hours per week of quality preschool education for Australian children in the year before school. This will ensure children get the best start to their education.

Supporting quality aged care

The Government is continuing to progress reforms to deliver enhanced access, quality and safety in aged care. This includes $1.6 billion for the release of an additional 23,000 home care packages, to support people who wish to stay at home for longer. A further $11.3 million will be provided for additional training and support for aged care providers and carers of people experiencing behavioural and psychological symptoms of dementia. Additional funding of $29.8 million will be provided to improve oversight and investigation of serious incidents of misconduct through the new Serious Incident Response Scheme.

To support the Government's target to reduce the number of younger people in residential aged care, $10.6 million will be provided to connect younger people to age-appropriate accommodation. The Government is also continuing work on an alternative funding tool for aged care by providing $91.6 million for the Australian National Aged Care Classification mechanism.

Delivering an effective and mature NDIS

On 1 July 2020, the Government completed the geographic rollout of the NDIS with the scheme becoming available on Christmas and Cocos Islands. To support the continued implementation of a mature and effective scheme and ensure participants receive quality services as quickly as possible, the Government is providing an additional $798.8 million over four years to the National Disability Insurance Agency (NDIA) and the NDIS Quality and Safeguards Commission.

The Government is delivering on its commitment to implement a Participant Service Guarantee and setting clear standards and timeframes for decision making by the NDIA, making it easier for people with disability and their families to navigate the NDIS.

Delivering frontline services

The Government is providing $219.9 million to transition the social and community services sector (SACS) from SACS wage supplementation and ensure Australians can access the critical frontline services they need. This includes $132.6 million towards supporting family and child support programs and $87.3 million towards supporting Family Law and Family Relationship Services.

Your Future, Your Super

The Government is building on its progress over recent years by delivering a package of reforms that will ensure that members' money is maximised for their retirement. These reforms will save members $17.9 billion over the next decade.

The reforms will stop the creation of unwanted multiple accounts that reduce retirement savings, implementing Recommendation 3.5 of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

In addition, for those entering the workforce for the first time or wanting to review their superannuation, a new online YourSuper comparison tool will be built to empower members to compare and select a superannuation product that meets their needs.

To further help members, the Government is making it easier for them to know if they are in an underperforming superannuation product. A new performance test will be introduced. Products that fail the test will have to disclose their underperformance to members and sustained underperformers will be prevented from receiving new members.

Finally, the reforms will improve the accountability and transparency of superannuation funds by legislating a stricter requirement for trustees to ensure that expenditure is motivated solely by the best financial interests of members and ensuring they disclose how they are spending members' money.

Supporting Indigenous Australians

The Government is providing $46.5 million over four years for the new National Agreement on Closing the Gap. This funding will be used to partner with Indigenous organisations to expand service delivery and build their capacity and business models. The Productivity Commission will provide independent oversight of the Agreement and ensure accountability for progress. To this end, the Government is providing an additional $10.1 million over four years with ongoing funding of $2.6 million per year. This resourcing will be used to prepare annual progress reports, three-yearly comprehensive reviews and an improved dashboard to measure progress towards Closing the Gap targets.

The Government is investing $150 million over three years in the Indigenous Home Ownership Program for new homes in regional Australia. This will help Indigenous Australians into home ownership and support the construction sector in the regions.

The Government is supporting young Aboriginal and Torres Strait Islander men to improve their self-esteem, confidence, leadership skills and engagement in education. By investing an additional $39.8 million in the Clontarf Foundation, the Government will enable 12,500 students to participate in the program by 2023 and help them complete year 12 and find employment.

The Government is building on its commitment to the Return of Cultural Heritage initiative with $10.1 million being provided to the Australian Institute of Aboriginal and Torres Strait Islander Studies over four years to secure the return of more cultural heritage to traditional owners and custodians.

The Government is continuing its commitment to the $5.4 billion Indigenous Advancement Strategy. The strategy funds and delivers a range of programs in areas such as education, employment, health, safety, wellbeing and reducing rates of incarceration.

Supporting veterans and their families

The Government acknowledges the unique nature and importance of military service, and continues to ensure the best possible system is available to support Australia's current and future military veterans and their families. This Budget delivers enhanced support for veterans and their families to maintain their long-term wellbeing, protect their mental health and assist them to transition successfully to civilian life.

The package includes $101.7 million in funding over four years from 2020-21 for veteran mental health and wellbeing initiatives, including the $5 million being provided to expand Open Arms counselling services to support mental health in the veteran community and address the rate of veteran suicide. Measures also include funding to support veterans in the transition process from leaving the Australian Defence Force (ADF) and re-entering civilian life, such as the $6 million being provided to continue the Prime Minister's Veterans' Employment Program, which promotes the wide-ranging skills of our ADF personnel to employers and rewards businesses for initiatives that support veteran employment.

Building regional resilience

Our regions and communities have been particularly impacted by COVID-19, which immediately followed the devastating bushfires and drought. The Government is increasing its support to regional Australians, helping our regions, industries and communities through the COVID-19 recovery and building their resilience to future challenges.

Supporting regional recovery from COVID-19

The Government will provide more than $550 million for a package of measures to support regional Australia recover from the impacts of COVID-19 focusing on industries and communities most affected and empowering them with opportunities for future growth. This builds on support provided through the $1 billion COVID-19 Relief and Recovery Fund.

The tourism sector is an important contributor to jobs and growth in many of our regional economies. With domestic and international border closures having a significant impact on the tourism sector, the Government will invest more than $250 million for a Regional Tourism Recovery Package to support local approaches to grow our tourism regions. Under the package, the Regional Tourism Recovery initiative will inject $51 million over two years to regions that are highly reliant on international travellers to diversify and reorient towards attracting more domestic visitors. $200 million in grants will also be provided through Round 5 of the successful Building Better Regions Fund with $100 million of the fund to be dedicated tourism-related infrastructure.

Further to this, $100 million over two years will go towards Regional Recovery Partnerships. These will focus on ten priority investment regions, which have experienced the brunt of COVID-19 and have opportunities to diversify to support longer-term growth and resilience. The partnerships will seek to back-in existing regional plans by developing a package of targeted initiatives with contributions from all levels of government.

Increased capacity and capability in our communities will help to boost longer-term regional growth. In this regard, the Government is providing $50.3 million to expand the Rural Health Multidisciplinary Training Program and investing in increased training and infrastructure for the rural health workforce. A new $5.7 million Building Strong, Resilient Regional Leaders initiative will support strong local voices who can help sustain regional Australia’s recovery and resilience.

The Government is also providing $41 million to establish the Securing Raw Materials Program and the Regional Cooperative Research Centres Project to support research and development activities in regional areas.

Investing in long-term resilience

The Government is building water infrastructure for the 21st Century through the National Water Grid, which will help secure reliable supplies of water in rural and regional Australia, enabling a strong agricultural sector, now and into the future. The Government has increased its commitment to building water infrastructure across Australia with an additional investment of $2 billion in the National Water Infrastructure Development Fund more than doubling the fund to a total of $3.5 billion. The Fund will become a 10-year rolling program of priority water infrastructure investments. Through the National Water Grid Authority and in conjunction with the

States and Territories, the Government will build the dams, weirs and pipelines to boost agricultural production in Regional Australia.

In addition to the National Water Grid, the Government is committed to supporting farmers and communities to prepare for, and recover from, drought and floods, including a further $50 million to help farmers upgrade their on-farm water infrastructure. The Government will also extend farmers' access to flood recovery grants that fund restocking, replanting and the replacement of damaged on-farm infrastructure. This is in addition to the Government's $5 billion Future Drought Fund, which will build Australia's capability to plan and prepare for future droughts.

The Government is also investing $269.6 million to improve the Murray-Darling Basin's (MDB's) river health, to support MDB communities, and to improve sustainable water management. This includes $70.5 million over four years for projects that will help accelerate implementation of the MDB Plan. The funding will also support a range of environmental projects, community grants programs and the establishment of a new Inspector-General of Water Compliance.

Staying connected

Investments by NBN Co will assist small and medium businesses across our regions and provide faster network access for millions of households. Upgrading services will stimulate regional and rural Australia with remote work becoming increasingly common across occupations. $30.3 million will also be provided to improve mobile and broadband services in regional areas, through extension of the Regional Connectivity Program, which is designed to complement the rollout of the NBN.

The Government is helping our aviation industry to maintain essential networks and connect regions through the extension of the Domestic Aviation Network Support and the Regional Airline Network Support programs. These programs have supported an average of more than 500 domestic return services per week to more than 120 city, regional and rural destinations through to August 2020. These commitments bring total Government support for the aviation sector during COVID-19 to $2.7 billion.

Extending the Northern Australia Infrastructure Facility

Northern Australia has been particularly hard hit by the fall in tourism through COVID-19. By extending the Northern Australia Infrastructure Facility for five years and expanding its lending criteria, this Budget is ensuring northern Australia economic recovery by supporting job creation and economic development.

Enhancing economic and environmental resilience

Cyber Security Strategy

The Government will provide an additional $201.5 million to deliver the 2020 Cyber Security Strategy, creating a more secure online world for all Australians. This takes the Government's total funding for the Strategy to $1.7 billion.

As part of the Strategy, among other initiatives, the Government will invest $128.1 million to counter cybercrime and $37.7 million in growing Australia's cyber security skills.

Improving services in our Territories

This Budget is providing $84.7 million to improve services in the Territories, including $28.9 million for Christmas Island stormwater, landslide and rock fall mitigation works and $55.8 million for essential services for Norfolk Island and Jervis Bay.

Recycling initiatives

Australia is phasing out the export of waste, plastic, paper, tyres and glass waste to protect our oceans and create jobs in the recycling industry. The Government will invest $249.6 million over four years to modernise recycling infrastructure, reduce waste and recycle more within Australia. This includes $190 million for a new Recycling Modernisation Fund that will drive $600 million of investment in new infrastructure to sort, process and remanufacture waste.

The package also includes $35 million to implement the Government's commitments under the National Waste Policy Action Plan and $24.6 million to improve waste data so we can measure recycling and track progress on waste targets.

Caring for the environment

The Government is investing a further $47.4 million to protect our oceans and restore their health. This will be achieved through our world-leading management of marine protected areas and through working with countries in our region, including our Pacific family, to protect our region's mangroves, tidal marshes, seagrasses and coral reefs.

The Government has also committed $29.1 million over six years to reduce the risk of contamination to land and water by implementing a *National Standard for the Environment Risk Management of Industrial Chemicals* in Commonwealth Areas. This will reduce the risk of future contamination of land and water and enable Australia to ratify international chemical conventions. It will enforce national, consistent standards for managing industrial chemicals in Commonwealth areas and control the introduction and export of hazardous industrial chemicals.

Statement 2: Economic Outlook

This Statement presents the economic forecasts that underlie the Budget estimates.

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Statement 2: Economic Outlook

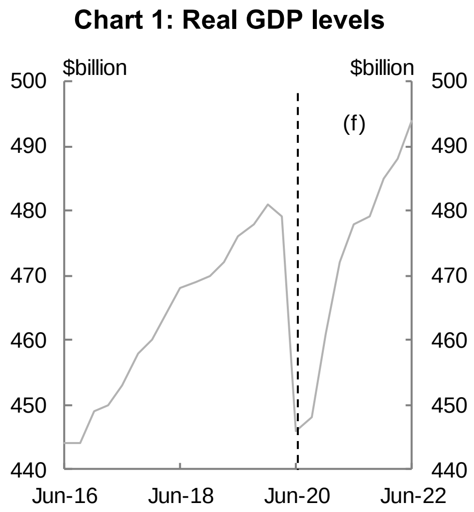
Overview

The COVID-19 pandemic represents the greatest challenge for the global economy since the Great Depression. Outbreaks are continuing to occur across most countries, even in those countries that were relatively successful in containing the virus in the first half of 2020. This is testing the capacity of health and economic institutions to respond.

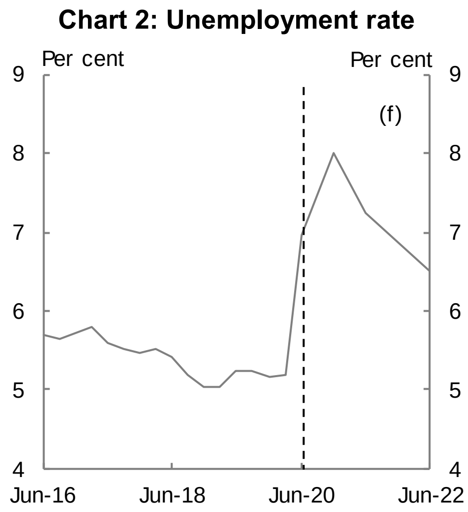
The economic effects of the COVID-19 pandemic have already been severe. The spread of the virus and the restrictions implemented to contain it led to historic falls in economic activity and employment globally over the first half of 2020. Economic activity has contracted in almost every economy around the world. Most of Australia's major trading partners experienced their most severe quarterly economic contraction on record in the June quarter 2020. Overall, global GDP is expected to fall by 4½ per cent in 2020.

The negative effects of the virus on economic activity have been mitigated by the implementation of unprecedented macroeconomic policy support. Overall global support to date is estimated to total around US$13 trillion or 15 per cent of global GDP. Direct fiscal actions make up around half of this support, with loans and guarantees and capital injections making up the other half. In most advanced economies, monetary policy has had limited capacity to respond.

In line with international experience, the Australian economy is currently in recession as a result of the COVID-19 pandemic; its first in almost 30 years. Real GDP contracted by 7.0 per cent in the June quarter 2020, the largest quarterly fall on record, after a modest fall of 0.3 per cent in the March quarter 2020. There were sharp falls in most components of economic activity over the first half of 2020, as uncertainty about the health and economic outlook increased precautionary behaviour, and travel restrictions and other containment measures affected the ability of consumers and businesses to undertake their usual activities. The effects on the labour market were severe, with around 10 per cent of the labour force losing their job or being stood down on zero hours during the peak of the restrictions in April. As a result, the effective unemployment rate peaked at around 15 per cent in that initial phase of the crisis (Box 3).



Source: ABS Australian National Accounts: National Income, Expenditure and Product and Treasury.



Source: ABS Labour Force Survey, Australia and Treasury.

The first tranches of the Government's economic support were effective in mitigating the most severe economic effects of the COVID-19 pandemic. The JobKeeper Payment kept a large share of those workers stood down connected to their employer, while the significant support to incomes continues to support household and business balance sheets.

Australia's economic and health outcomes compare favourably with those of most other countries. Australia has lower case numbers per capita and lower mortality rates than all the G7 nations with the exception of Japan. Australia has also outperformed in economic terms, with a smaller fall in GDP than every major advanced economy over the first half of 2020.

There were positive signs in the second half of the June quarter 2020 that a rebound in activity was underway, consistent with the staged easing of containment measures in most parts of the country. Measures of business and consumer confidence had picked up from record lows and measures of consumer spending were recovering. There had also been a noticeable improvement in the labour market, with the effective unemployment rate in July around 5 percentage points lower than its peak in April, accompanied by a significant recovery in average hours worked.

However, the outbreak of the virus and re-introduction of severe restrictions in Victoria has set back this recovery, with indicators of activity and the labour market deteriorating in that state over recent months. It is estimated that the second-wave outbreak in Victoria will have lowered national GDP growth by around 2 percentage points in the September quarter 2020. Timely indicators suggest that activity and employment continued to recover in other states and territories in the September quarter 2020, especially those that had fewer cases and were able to lift most restrictions.

Assuming the virus is effectively contained in Australia (Box 1), economic activity is forecast to pick up from late 2020 and into early 2021. The recovery is expected to be driven by a further easing of containment measures and improving business and consumer confidence. Activity will also be significantly supported by the Government's economic measures, including new initiatives announced in the 2020-21 Budget that support spending and investment. In calendar year 2020, real GDP growth is expected to fall by 3¾ per cent, before growing by 4¼ per cent in calendar year 2021.

The unemployment rate is forecast to peak at 8 per cent in the December quarter 2020, before falling to 6½ per cent by the June quarter 2022 as economic activity recovers. The peak in the unemployment rate is expected to be lower than forecast in the July 2020 Economic and Fiscal Update (July Update), reflecting additional Government economic support and recent stronger-than-expected outcomes, with the unemployment rate falling to 6.8 per cent in August. However, further rises in the unemployment rate are still expected over coming months, reflecting headwinds from ongoing international and domestic border restrictions, the continuation of health restrictions in Victoria, ongoing restructuring amongst businesses and the impact of increased participation as people continue to return to the labour force to look for work as the labour market improves.

The Government's economic support since the onset of the COVID-19 pandemic, totalling $257 billion, is unprecedented and will continue to support households and businesses through the recovery. By increasing incomes and confidence, and supporting households and businesses to get back on their feet, the package of measures is expected to result in economic activity being 4½ per cent higher by 2021-22 and the peak of the unemployment rate being lower by around 5 percentage points than what otherwise would have occurred. Without the Government's economic support, the unemployment rate would have risen, and remained, above 12 per cent throughout 2020-21 and 2021-22 (see *Budget Statement 4: Fiscal Policy and Economic Growth* for further information).

A recovery in the global economy will also support activity in Australia. The global economy is forecast to expand by 5 per cent in 2021 due to some easing of containment measures and a gradual recovery in consumer and business confidence. However, economic activity in most major economies is forecast to remain below pre-COVID-19 levels until at least the end of 2021.

The challenges for the Australian economy from the virus remain significant. Further outbreaks of the virus are likely until a vaccine is developed and widely available. There is also substantial uncertainty surrounding the global and domestic outlook. This stems largely from uncertainty around the spread of the virus and the success of health interventions. Any substantial outbreaks that affect the confidence of households to spend and businesses to invest and employ people remain a key risk to the recovery. There is also significant uncertainty around the timing and efficacy of vaccines and other medical treatments. An earlier-than-expected vaccine poses the most significant upside risk to the outlook.

Further, the extent of any longer-lasting economic effects from the COVID-19 pandemic, both domestically and globally, are difficult to predict. There is a risk that the substantial dislocation that has occurred in the labour market could result in persistently higher unemployment than forecast. The COVID-19 pandemic also has the potential to permanently impact the way we live our lives. A greater shift to online consumer and business platforms, reductions in retail and office space and ongoing effects on global supply chains and trade flows are just some of the possible longer-run consequences of the COVID-19 pandemic.

Box 1: Key assumptions

The evolution of the health crisis and the lifting of restrictions remain significant risks to the economic outlook. The key assumptions that underpin the economic forecasts are set out below. Outcomes could be substantially different to the forecasts, depending upon the extent to which these assumptions hold.

It is assumed that over the forecast period material localised outbreaks of COVID-19 occur but are largely contained. A population-wide Australian COVID-19 vaccination program is assumed to be fully in place by late 2021. General social distancing restrictions are assumed to continue until a vaccine is fully available.

Outside of Victoria, restrictions have been progressively lifted with some differing rules across states and territories. Stage 4 restrictions for metropolitan Melbourne were introduced from 6pm on 2 August and Stage 4 business restrictions were introduced from 6 August 2020. Stage 3 'stay at home' restrictions were reintroduced in regional Victoria from 6 August 2020.

Restrictions in Victoria are assumed to gradually lift over the remainder of 2020 in accordance with the Victorian Government's roadmap for reopening announced on 6 September 2020. The lifting of restrictions is subject to preconditions that require case numbers to fall. These forecasts assume that the preconditions are met. Victoria's activity restrictions are assumed to broadly converge to those in other states by the end of 2020.

It is assumed that state border restrictions currently in place are lifted by the end of 2020, except for Western Australia which is assumed to open from 1 April 2021. A gradual return of international students and permanent migrants is assumed through the latter part of 2021 (with small, phased pilot programs beginning to return international students from late 2020). Inbound and outbound international travel is expected to remain low through the latter part of 2021, after which a gradual recovery in international tourism is also assumed to occur.

Net overseas migration (NOM) is significantly affected by international travel restrictions and weaker labour markets domestically and globally. It is assumed to fall from around 154,000 persons in 2019-20 to be around -72,000 persons by the end of 2020-21, before gradually increasing to around 201,000 persons in 2023-24.

Table 1: Domestic economy — detailed forecasts[(a)]

	Outcomes[(b)]	Forecasts	
	2019-20	2020-21	2021-22
Real gross domestic product	**-0.2**	**-1 1/2**	**4 3/4**
Household consumption	-2.6	-1 1/2	7
Dwelling investment	-8.8	-11	7
Total business investment[(c)]	-1.8	-9 1/2	6
By industry			
Mining investment	4.8	5 1/2	1 1/2
Non-mining investment	-3.7	-14 1/2	7 1/2
Private final demand[(c)]	-2.9	-3 1/2	7
Public final demand[(c)]	5.6	5 3/4	2 1/2
Change in inventories[(d)]	-0.4	0	1/4
Gross national expenditure	-1.2	-1	6
Exports of goods and services	-1.6	-9	2
Imports of goods and services	-7.1	-9 1/2	8 1/2
Net exports[(d)]	1.1	- 1/4	-1
Nominal gross domestic product	1.7	-1 3/4	3 1/4
Prices and wages			
Consumer price index[(e)]	-0.3	1 3/4	1 1/2
Wage price index[(f)]	1.8	1 1/4	1 1/2
GDP deflator	1.9	- 1/4	-1 1/2
Labour market			
Participation rate (per cent)[(g)]	63.4	65 1/4	65 1/2
Employment[(f)]	-4.3	2 3/4	1 3/4
Unemployment rate (per cent)[(g)]	7.0	7 1/4	6 1/2
Balance of payments			
Terms of trade[(h)]	1.0	-1 1/2	-10 3/4
Current account balance (per cent of GDP)	1.8	2	-1 1/2

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data unless otherwise indicated.
(c) Excluding second-hand asset sales between the public and private sector.
(d) Percentage point contribution to growth in GDP.
(e) Through-the-year growth rate to the June quarter.
(f) Seasonally adjusted, through-the-year growth rate to the June quarter.
(g) Seasonally adjusted rate for the June quarter.
(h) The detailed forecasts are underpinned by price assumptions for key commodities: Iron ore spot price assumed to decline to US$55/tonne free-on-board (FOB) by the end of the June quarter 2021; metallurgical coal spot price assumed to remain at US$108/tonne FOB; and thermal coal spot price assumed to remain at US$51/tonne FOB.

Note: The detailed forecasts for the domestic economy are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade-weighted index of around 62 and a $US exchange rate of around 72 US cents. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US$46 per barrel.

Population growth is assumed to be around 1.2 per cent in 2019-20, 0.2 per cent in 2020-21 and 0.4 per cent in 2021-22.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Balance of Payments and International Investment Position, Australia; Labour Force Survey, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; unpublished ABS data and Treasury.

Outlook for the international economy

The COVID-19 pandemic has caused a global crisis like no other in living memory. To protect the health of citizens, countries closed or restricted movement across international borders, and locked down movement and activity within their economies.

These actions have weighed heavily on global activity, with historic contractions in GDP in some cases exceeding 20 per cent and severe impacts on labour markets in the first half of 2020 across most of Australia's major trading partners. According to the International Labour Organisation, hours worked fell by the equivalent of 600 million full-time jobs in the June quarter 2020, compared with the December quarter 2019.

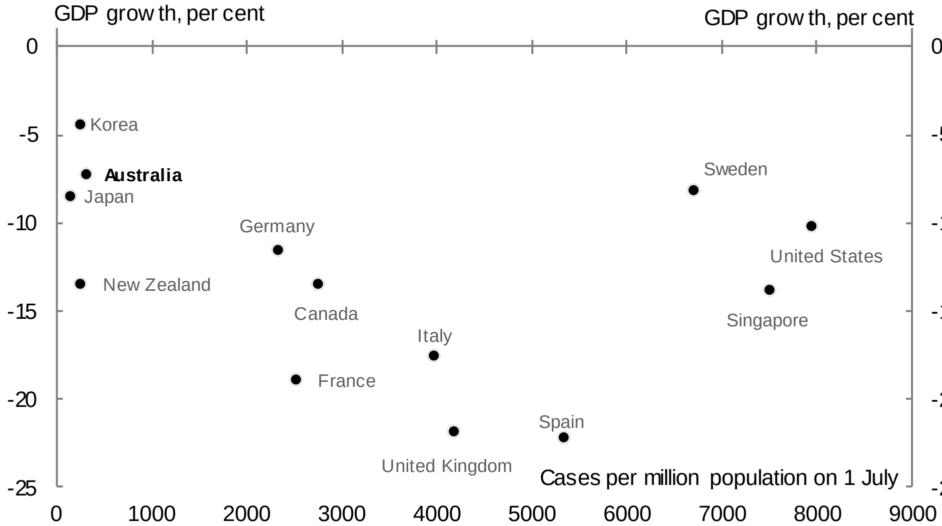
The sharp contractions in activity and employment in the first half of 2020 are expected to be followed by strong growth in the second half of the year in most economies as restrictions ease. Nevertheless, the global economy is forecast to contract by 4½ per cent in 2020 overall, the most severe contraction since the Great Depression.

Health outcomes have been a key determinant of the strength of the economic recovery. So far, the economies that contained the spread of the virus quickly experienced stronger growth outcomes, such as China and Korea. Economies that have struggled to contain the virus, and have had to impose longer-lasting containment measures, such as the United Kingdom, much of the euro area, India and the United States, suffered more substantial contractions in economic activity and are expected to recover more slowly. Greater transmission of the virus remains a significant risk to the outlook for all economies.

Australia's economic and health outcomes compare favourably with those in most other countries, with low case numbers per capita and relatively strong performance in economic terms (Chart 3).

Many countries have seen a resurgence of the virus as restrictions have been eased, but government responses to these secondary outbreaks have generally been more targeted than initial responses, and accordingly have been less economically damaging.

Chart 3: GDP growth in first half of 2020; Confirmed COVID-19 cases on 1 July



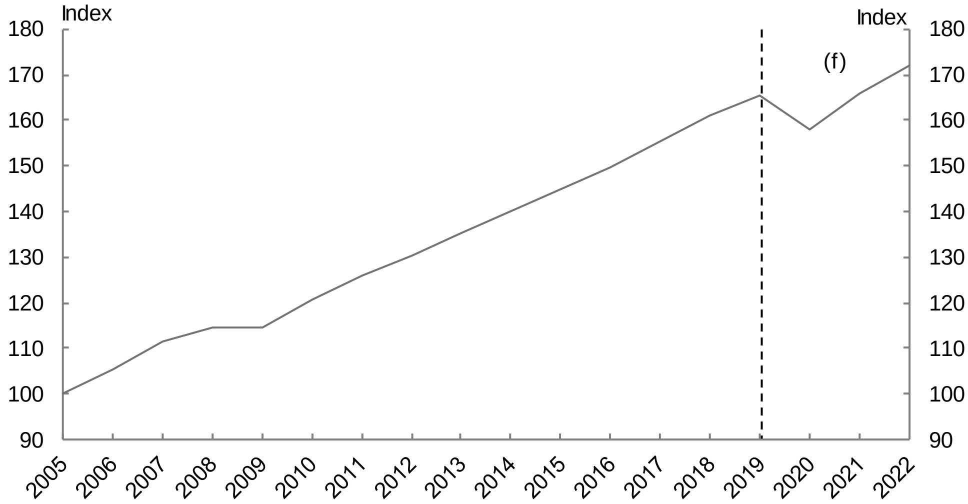
Source: National statistical agencies, Oxford University, United Nations and Refinitiv.

Near-zero policy interest rates, unconventional monetary policy and record levels of fiscal support have eased the impact of COVID-19 on household and business finances, particularly in advanced economies. This has supported a recovery in global financial conditions, with share markets rebounding from March lows and corporate bond yields falling even amid significant issuance of these securities.

Global GDP is forecast to continue to recover over the remainder of the forecast period, growing by 5 per cent in 2021 and 3½ per cent in 2022 (Chart 4). However, the level of activity in most economies is expected to remain below its pre-COVID-19 level for some time. Recoveries are expected to be protracted. Until testing and tracing capabilities improve, and vaccines are developed and widely distributed, life in most countries will likely involve restrictions on activity that will need to be tightened periodically to contain sporadic outbreaks, and business and consumer confidence is expected to remain subdued. While a vaccine is assumed to be available from the end of 2021, it will take some time for complete global coverage. It will also take some time for the damage to household and business balance sheets and labour markets to be repaired.

There is substantial uncertainty around the path to recovery. The ultimate size and duration of this global shock will depend on the frequency and severity of outbreaks around the world, the severity of containment measures implemented to control them, and the extent to which consumer and business confidence re-emerges to support activity. There remains a risk that severe health and economic outcomes in a range of countries may put pressure on the global economic and financial architecture, which might lead to credit tightening and financial instability. There is also a risk that global markets have not fully accounted for the economic consequences of the crisis, including from possible solvency issues arising from the ongoing fallout for corporate earnings.

Chart 4: Global GDP growth index



Note: Index: 100 = Global GDP in 2005.
Source: International Monetary Fund, Refinitiv and Treasury.

Major trading partner GDP is expected to fall by 3 per cent in 2020, before growing by 5¾ per cent in 2021. Eight of Australia's top ten trading partners are expected to see a contraction in GDP in 2020, with China and Taiwan the exceptions.

The **Chinese** economy is forecast to grow by 1¾ per cent in 2020 and 8 per cent in 2021. Steady industrial production growth and the expected continued expansion of infrastructure and property investment will underpin its economic recovery over 2020. Over the remainder of the forecast period, China's economy is expected to strengthen further, but a more moderate recovery in demand in the rest of the world, still cautious consumers and uncertainty about the health and economic outlook are expected to weigh on economic activity.

In the **United States**, GDP is forecast to contract by 5½ per cent in 2020, before growing by 2¼ per cent in 2021. Despite having the world's highest count of confirmed COVID-19 cases and deaths, new infections have trended downward since July, following some parts of the country delaying or partly reversing moves to reopen. Unprecedented Government stimulus and Federal Reserve action have helped soften the pandemic's impact on households and businesses to date. However, significant uncertainty remains around health and economic outcomes, which will continue to weigh on domestic demand.

In the **euro area**, GDP is forecast to fall by 9 per cent in 2020 before partly recovering by 3½ per cent in 2021. As the euro area emerged from strict lockdowns, early indicators pointed to a strong initial recovery on the back of pent-up demand and the wide use of job support schemes. However, a significant increase in infections following the summer holiday period has seen the introduction of targeted, localised containment measures, which is expected to slow the recovery. Agreement on a European Recovery Fund

appears to have calmed bond markets. However, sovereign debt overhangs and structural imbalances within the currency area, which have been exacerbated by differences between member states' fiscal responses, are likely to weigh on the recovery. A no-deal Brexit remains a risk to the outlook for the euro area and the United Kingdom.

Japan's GDP is expected to contract by 5¾ per cent in 2020, before growing by 2½ per cent in 2021. The Japanese economy suffered its largest fall on record in the June quarter 2020 following significant disruptions from measures to contain the spread of COVID-19. Since the majority of restrictions were lifted in May, there has been an initial rebound in consumption, supported by significant fiscal stimulus and employee retention efforts. While a second-wave outbreak of the virus threatened that recovery, Japan appears to have managed a resurgence in cases without reimposing significant restrictions on economic activity. However, ongoing consumer caution and a weak external outlook are expected to limit the speed of the recovery.

GDP for **Other East Asia** is forecast to fall by 3¾ per cent in 2020 and grow by 4 per cent in 2021. Economies in the region have had varying success in containing the virus. Korea and Vietnam appear to have limited transmission without substantially restricting production. Other economies, such as Indonesia and the Philippines, still face elevated infection rates that are weighing on growth prospects. Across the board, international travel bans, weak external demand and production disruptions that are affecting regional supply chains will continue to weigh heavily on growth over the forecast period. Financial market volatility and renewed capital outflows from the region also present a potential future challenge.

India's GDP is expected to fall by 9 per cent in 2020, followed by growth of 9 per cent in 2021. The sharp contraction in growth over the June quarter 2020 was driven by a nationwide lockdown that led to a significant weakening in domestic demand, severe supply-chain disruption and labour market dislocation. Despite rising infection rates, India is now easing restrictions on a state-by-state basis. While this has brought about some recovery in activity, the strength and longevity of growth will depend on confidence and financial sector resilience, as well as whether the state and central governments can avoid further lockdowns. A weaker global outlook will also weigh on growth, especially in areas such as foreign remittances and services exports.

Table 2: International economy forecasts[(a)]

	Outcomes	Forecasts		
	2019	2020	2021	2022
China	6.1	1 3/4	8	5 1/4
India	4.9	-9	9	4 3/4
Japan	0.7	-5 3/4	2 1/2	1 3/4
United States	2.2	-5 1/2	2 1/4	3
Euro area	1.3	-9	3 1/2	3
Other East Asia (b)	3.6	-3 3/4	4	3 1/2
Major trading partners (c)	3.5	-3	5 3/4	3 3/4
World (c)	2.9	-4 1/2	5	3 1/2

(a) World and Other East Asia growth rates are calculated using GDP weights based on purchasing power parity (PPP), while growth rates for major trading partners are calculated using goods and services export trade weights.
(b) Other East Asia comprises the Association of Southeast Asian Nations group of five (ASEAN-5), comprising Indonesia, Malaysia, the Philippines, Thailand and Singapore, along with Hong Kong, South Korea, Vietnam and Taiwan.
(c) Growth rates are estimates in 2019 rather than outcomes.
Source: National statistical agencies, International Monetary Fund, Refinitiv and Treasury.

Outlook for the domestic economy

Outlook for real GDP growth

The COVID-19 pandemic and associated containment measures are having profound impacts on the Australian economy. The COVID-19 recession is Australia's first in almost 30 years, with real GDP contracting by a record 7.0 per cent in the June quarter 2020. This followed a fall of 0.3 per cent in the March quarter 2020, as a result of both the devastating bushfires and early stages of the COVID-19 pandemic.

There have been record falls in a range of key economic indicators over the first half of 2020. Earlier this year, business conditions and confidence fell to record lows and there were significant downgrades to firms' capital expenditure plans. In the household sector, there were record falls in consumer confidence, with consumption of services such as accommodation, food, recreation and transport particularly hard hit. There have been severe job losses, with the unemployment rate rising at its fastest pace on record in April, alongside a record fall in participation.

The unwinding of containment measures in the latter part of the June quarter 2020 led to a noticeable recovery in economic activity and an improvement in the labour market. Of the 1.3 million people who lost their job or were stood down on zero hours in April, almost 60 per cent or 760,000 are now back at work. The pace of output growth is forecast to pick up in late 2020 and into the first half of 2021, as restrictions continue to ease and business and consumer confidence improves. Additional policy support will also continue to boost economic activity. Following a fall of 3¾ per cent in 2020, real GDP is expected to grow by 4¼ per cent in 2021. In financial-year terms, real GDP is expected to fall by 1½ per cent in 2020-21 before recovering in 2021-22 to grow by 4¾ per cent. While the unemployment rate is estimated to rise further, peaking at 8 per cent in the December quarter 2020, the labour market overall is expected to continue to recover, with the unemployment rate forecast to reach 6½ per cent by the June quarter 2022.

Alongside the confidence and income effects outlined above, substantially slower population growth will also weigh on the recovery. Australia's population growth is expected to fall to 0.2 per cent in 2020-21 and 0.4 per cent in 2021-22, the slowest growth in over a century, due to net overseas migration which is expected to be negative over this period for the first time since 1946 (Box 5).

The challenges facing the Australian economy remain significant and there is substantial uncertainty around the domestic outlook. COVID-19 outbreaks, especially those that would necessitate further containment measures, remain a significant risk, as has already been seen in Victoria. Existing restrictions could also be lifted either earlier or later than assumed. Significant outbreaks in key trading partners could slow the domestic recovery, including by delaying the opening of international borders. The timing of vaccines and other treatments also remains uncertain. Box 2 presents stylised upside and downside scenarios for the economic outlook.

Businesses in some sectors are facing rapid structural change to their operating environments, while at the same time recovering from the crisis. Together with the significant uncertainty about the global outlook, this means the outlook for businesses is highly uncertain, which could lead to additional investment being deferred or discontinued until economic conditions improve.

With the labour market facing headwinds from weak demand, ongoing business restructuring and international border closures, it is possible that the unemployment rate could remain persistently higher than forecast. Coupled with the existing high levels of household debt in Australia, this could result in a weaker-than-expected recovery in household demand.

It is also possible that the labour market could recover more quickly than currently forecast, as has occurred to date. The unemployment rate could also be materially higher or lower than forecast, depending on how much of the recovery is split between hours and employment and the degree to which people return to the labour force to look for work.

Box 2: Stylised upside and downside scenarios

How the COVID-19 pandemic will play out and its effects on communities and the economy are highly uncertain. There are large upside and downside risks associated with the forecasts.

It is possible that health outcomes both globally and in Australia improve faster than expected if a vaccine is available earlier than expected. If this were to occur there would likely be renewed global growth, and increased domestic business and household confidence, which would support stronger consumption and economic activity. Better health outcomes in some of Australia's major trading partners, and the successful implementation of international student pilots could also allow an earlier return of international students in 2021.

Alternatively, significant COVID-19 outbreaks could materialise in particular regions with a rapid increase in cases requiring a reimposition of industry restrictions and tighter physical distancing rules. Moreover, persistent transmissions of the virus globally could delay the opening of international borders and the return of international tourism and students.

Given the high degree of uncertainty around the outlook, Treasury has considered the impact of alternative scenarios on the GDP forecasts. Differing GDP outcomes would have implications for labour market outcomes.

Upside scenario: An early vaccine

The upside scenario assumes that COVID-19 is controlled more quickly leading to a pick-up in confidence and reduced uncertainty. An earlier roll-out of a vaccine from 1 July 2021 would provide certainty for both households and businesses, helping support stronger consumption and investment. The upside scenario also assumes an earlier return of international students in larger numbers from 1 July 2021.

Under this scenario economic activity could increase by $34 billion to the June quarter 2022, increasing growth by 1½ percentage points in 2021-22 compared with the central forecast. The boost in consumption and a more rapid easing in restrictions would benefit industries most affected by the health measures, such as accommodation and food services and arts and recreation services.

Downside scenario: Additional outbreaks of COVID-19

Under the downside scenario it is assumed that rolling outbreaks necessitate the reimposition of severe containment measures on around 25 per cent of the national economy from 1 January 2021 to 30 June 2022. The restrictions under this scenario have an economic impact similar to the average impact observed across Australia's initial wave of infections and the second outbreak in Victoria. Areas unaffected by the outbreak are assumed to be adversely impacted by a fall in consumer confidence which would subdue consumption. The reimposition of activity restrictions would further disrupt the recovery in employment.

Under this scenario, economic activity would be $55 billion lower across 2020-21 and 2021-22 compared with the forecasts, prolonging the national economic recovery. Economic growth would be 1 percentage point lower in both 2020-21 and 2021-22 compared with the forecasts.

Households

Following a record fall of 12.1 per cent in the June quarter 2020, household consumption is expected to recover over the forecast period. The pick-up in consumption is expected to be rapid in the near term, but consumption is expected to remain below its pre-COVID-19 level until the end of 2021, reflecting continued restrictions, heightened uncertainty, dampened consumer confidence and weakness in the income households receive from working. These effects will be partly offset by significant Government income support. Following a fall of 2.6 per cent in 2019-20, household consumption is forecast to fall by 1½ per cent in 2020-21 and rise by 7 per cent in 2021-22.

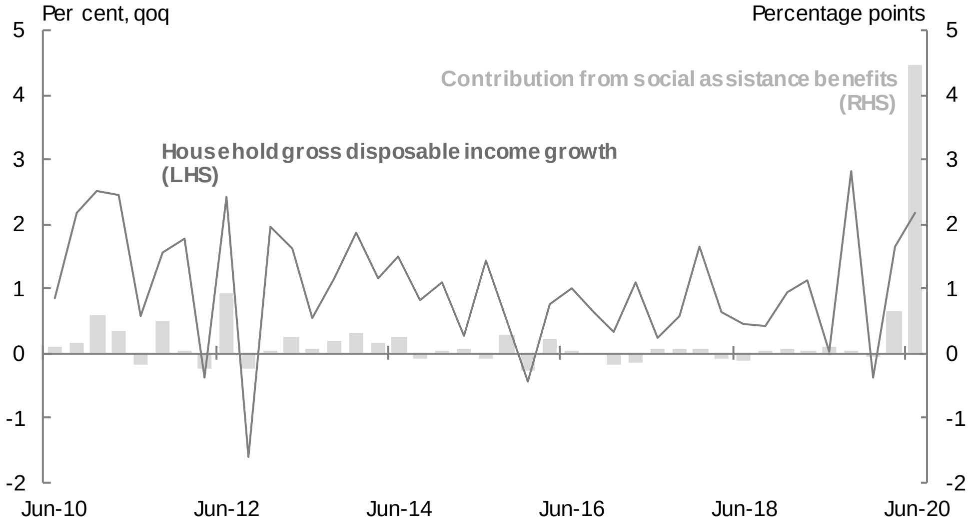
Consumption growth is expected to have picked up in the September quarter 2020 as health restrictions eased across most of the country, accompanied by an improvement in employment and confidence. This recovery is expected to continue in the following quarters as Victoria moves out of restrictions and domestic borders reopen. The recovery is expected to be broadly based across consumption components, albeit with restrictions and uncertainty still affecting sectors such as arts, entertainment, recreation and hospitality. International travel is expected to remain subdued for some time. Potential shifts in consumer behaviour in the aftermath of the COVID-19 pandemic may see longer-term structural changes in household consumption.

Significant job losses and reductions in hours have lowered the income households receive from working. Household income from investments has also fallen. However, these falls have been more than offset by Government income support including the JobKeeper Payment and the Coronavirus Supplement (Chart 5). Household finances have also been assisted through initiatives such as rent relief, loan repayment deferrals and the early release of funds from superannuation. Government policies, including the JobKeeper Payment Extension and personal income tax relief, will continue to support disposable incomes. Household gross disposable income increased by 2.2 per cent in the June quarter 2020 and is expected to remain above pre-COVID-19 levels even as policy support is gradually unwound.

A sharp rise in the household saving ratio in the June quarter 2020 is expected to provide support for consumption growth going forward, although the environment of high unemployment and uncertainty around the path of the virus is expected to keep the saving ratio above pre-COVID-19 levels until at least the June quarter 2022. How quickly households lower their rates of saving and increase spending remains a key uncertainty for the outlook.

Total household wealth has fluctuated as asset prices have responded to the shock and policy support, but overall aggregate household wealth has proved resilient with wealth only slightly below its record high at the end of 2019. Rebounding prices in global equity markets, in part a response to major central banks' policy action, have helped household superannuation recover some of their losses. Housing wealth has declined only modestly as housing prices have softened.

Chart 5: Household income and social assistance benefits

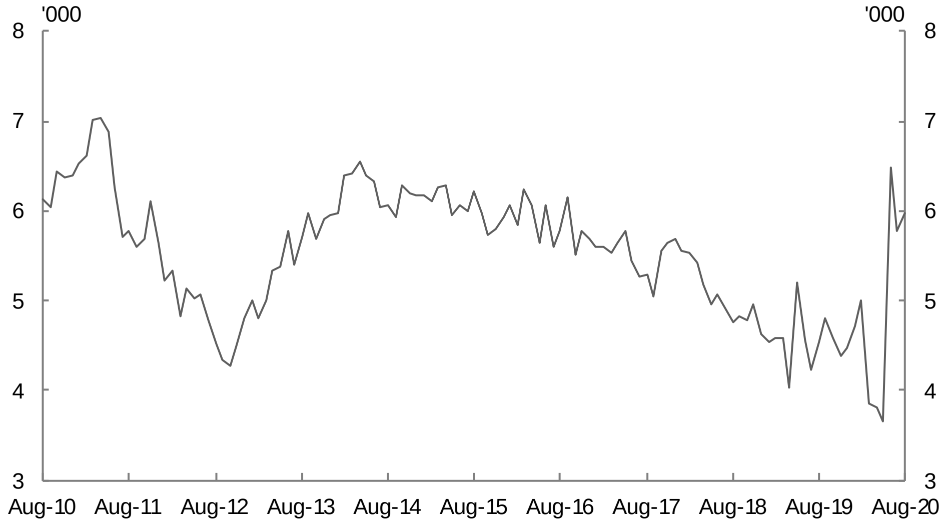


Source: ABS Australian National Accounts: National Income, Expenditure and Product.

Dwelling investment is expected to remain weak in the near term, with a forecast fall of 11 per cent in 2020-21. The sharp contraction in the June quarter 2020 largely reflected a pre-existing slowing in activity. Further declines are expected in the September quarter 2020 as commencements continue to slow and Stage 4 restrictions in Melbourne reduce the level of activity, particularly for apartment development sites.

However, early indicators of demand for new housing construction and liaison with industry suggest the HomeBuilder scheme in conjunction with other housing policies and low interest rates is pulling forward demand and will provide notable support to activity in late 2020 and into 2021 (Chart 6). Dwelling investment is forecast to rise by 7 per cent in 2021-22.

Chart 6: Early indicators of housing demand — HIA new home sales



Source: HIA.

Business investment

New business investment is forecast to fall by 9½ per cent in 2020-21, driven by a significant deterioration in the outlook for non-mining investment, before growing by 6 per cent in 2021-22. The highly uncertain environment created by the COVID-19 pandemic is expected to see a sharp decline in machinery and equipment investment in the near term and a gradual run-off in non-dwelling construction as demand for new projects declines and work in the pipeline is completed. In 2021-22, easing restrictions, improving confidence and newly introduced Government policies to support businesses will drive the recovery in business investment, particularly in machinery and equipment.

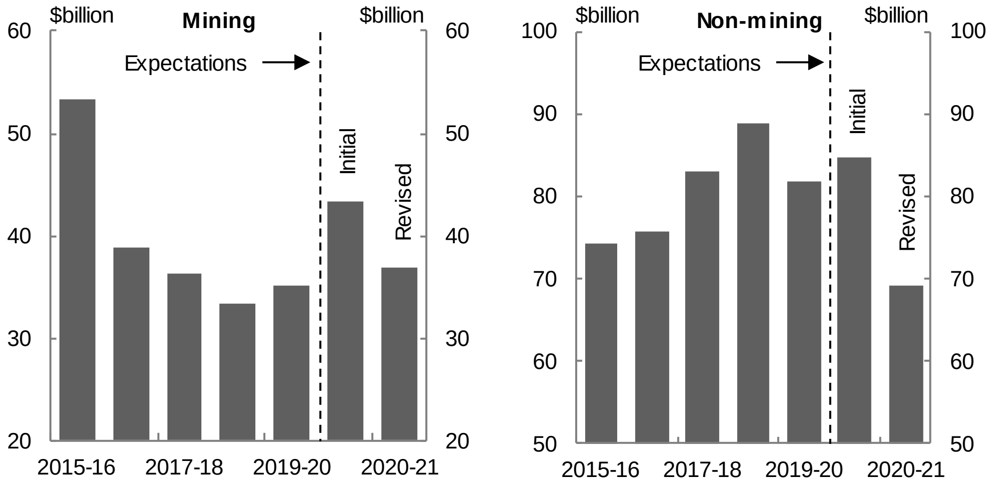
The June quarter 2020 saw new business investment fall by 3.5 per cent, driven by the largest decline in new machinery and equipment investment in 10 years. However, business liaison suggests that the expanded instant asset write-off policy provided support for machinery and equipment investment throughout the quarter. Aggregate non-dwelling construction activity was little changed from previous quarters, reflecting an elevated pipeline of work yet to be done and relatively little disruption to the operation of construction sites.

Non-mining business investment is forecast to decrease by a further 14½ per cent in the September quarter 2020. ABS survey data have indicated that expectations for non-mining investment have suffered a further downgrade for 2020-21 with businesses deferring or cancelling non-essential capital investment. This is also consistent with renewed containment measures in Victoria, declining approvals for non-residential construction and a continued environment of uncertainty. Government policies including the expansion of the instant asset write-off and Backing Business Investment, as well as the Temporary full expensing and Temporary loss carry-back measures

announced in the 2020-21 Budget, are expected to support business investment over the two years to the June quarter 2022. Non-mining investment is forecast to fall by 14½ per cent in 2020-21 before growing by 7½ per cent in 2021-22.

Mining investment grew for the first time in seven years in 2019-20, and is expected to grow by a further 5½ per cent in 2020-21. Industry consultation and recent capital expenditure data suggest that investment in large iron ore projects is expected to continue in order to sustain productive capacity and maintain large capital stocks accumulated over the investment boom. However, mining investment growth is forecast to be weaker at 1½ per cent in 2021-22, as global uncertainty and lower demand for some commodities have led to deferrals of investment for new and existing projects for other major commodity exports (Chart 7).

Chart 7: Mining and non-mining capital investment intentions



Note: Data are nominal and adjusted using long-run realisation ratios. Initial expectations represent the first estimate based on the December quarter 2019 survey, conducted prior to the COVID-19 pandemic. The revised expectations are the latest (third estimate) based on the latest June quarter 2020 survey.
Source: ABS Private New Capital Expenditure and Expected Expenditure, Australia.

Public final demand

New public final demand is forecast to grow strongly by 5¾ per cent in 2020-21 and by a further 2½ per cent in 2021-22, aided by continued spending on healthcare and other essential services to assist with the impacts of the COVID-19 pandemic. In addition, increased expenditure on the National Disability Insurance Scheme and additional investments in infrastructure and the National Broadband Network will support economic activity over 2021-22. Impacts from many other Government policies, including the significant economic support measures announced in the 2020-21 Budget, will be evident in other areas of the economy such as household consumption and private investment, rather than public final demand.

Net exports

Net exports are forecast to slightly detract from GDP growth in 2020-21 and detract 1 percentage point from GDP growth in 2021-22. The forecast for net exports is significantly affected by the assumptions regarding international travel flows, with services trade expected to remain subdued over most of the forecast period. Imports fell by more than exports in the first half of 2020 largely because the value of Australian tourism imports is greater than exports (excluding education). Imports and exports are expected to decline at similar rates in 2020-21. However, imports are expected to grow faster than exports in 2021-22. This is mainly because the expected rebound in domestic demand will support growth in goods imports, while education exports are forecast to decrease.

Exports are forecast to fall by 9 per cent in 2020-21 and grow by 2 per cent in 2021-22. International travel restrictions have severely affected tourism and education exports. Between April and July, visitor arrivals were down by over 98 per cent compared with the same period in 2019. Looking forward, services exports are expected to fall by 37 per cent in 2020-21 and 4½ per cent in 2021-22. Tourism drives most of the decrease in 2020-21, while international education exports drive the decrease in 2021-22 as the number of foreign student arrivals remains low and some existing students depart. Although services exports begin to recover once international travel picks up, they will take some time to return to pre-COVID-19 levels.

Mining exports are expected to grow by ½ per cent in 2020-21 and 4 per cent in 2021-22, supported by robust demand for iron ore from China, and a gradual recovery in other key export partners as COVID-19 restrictions ease and industrial production recovers. In the near term, coal export volumes are expected to be subdued due to lower global demand.

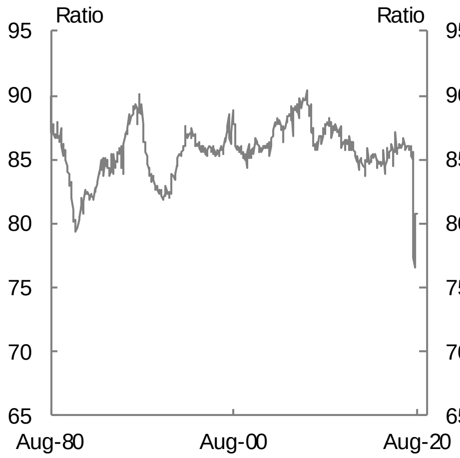
Rural exports are expected to grow by ½ per cent in 2020-21 and 2½ per cent in 2021-22, driven by a recovery in crop exports as seasonal conditions improve. This is expected to be partly offset in the near term by lower meat exports as herds and flocks are rebuilt.

Imports are forecast to fall by 9½ per cent in 2020-21, following a decline of 7.1 per cent in 2019-20. The decrease over two years is mainly driven by large falls in services imports due to international travel restrictions severely limiting the number of Australians travelling overseas. Imports of goods are expected to be subdued in 2020-21, growing by only ½ per cent. Imports are forecast to partly recover in 2021-22, growing by 8½ per cent, but remain below their pre-COVID-19 level. This recovery is partly due to the assumption that international travel picks up, but goods imports are also expected to grow by 6 per cent in 2021-22 as domestic consumption and investment recover.

The labour market

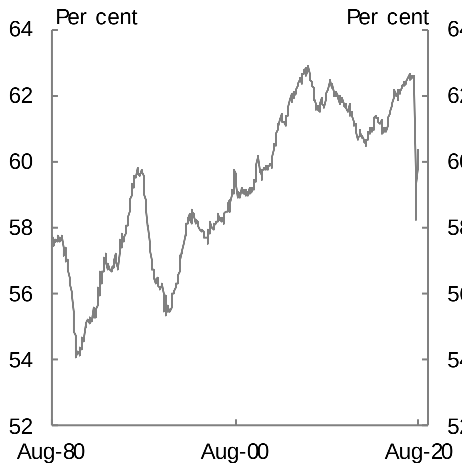
The deterioration in the labour market caused by the COVID-19 pandemic is unprecedented (Charts 8 and 9).

Chart 8: Hours worked to population



Note: Chart shows monthly hours worked divided by the civilian population aged 15 and over.
Source: ABS Labour Force Survey, Australia.

Chart 9: Employment to population



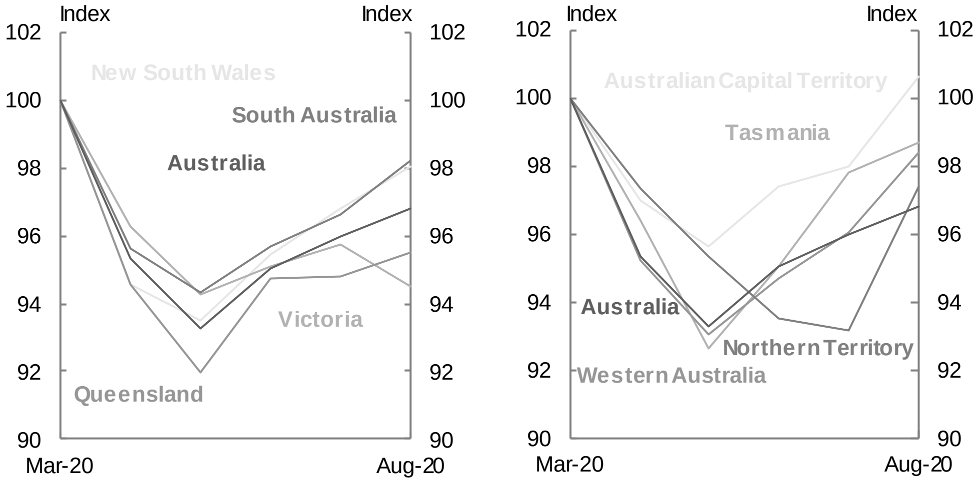
Source: ABS Labour Force Survey, Australia.

At a national level, employment has recovered significantly since the COVID-19 restrictions began to be relaxed, but it remains well below pre-COVID-19 levels. Total hours worked fell by 10.4 per cent between March and May, and recovered around half of this loss between May and August. The number of Australians in employment also increased significantly between May and August, recovering around half of the employment loss in the initial months of the COVID-19 pandemic. In addition, the number of employed people working zero hours for economic reasons has fallen from its peak of around 720,000 people in April to be around 150,000 people in August.

Females and young workers suffered most acutely in the earlier stages of the COVID-19 pandemic, reflecting their higher shares of employment in the most heavily affected industries and in casual employment. Between May and August around 270,000 females regained employment, in comparison to around 190,000 males. Although the number of employed 15-24 year olds increased by around 181,000 between May and August, youths remain a significantly affected age cohort. The level of employment among this cohort in August remained around 7.8 per cent below its March level, which compares with an average 3.2 per cent decline over all ages.

State and territory labour market outcomes have diverged significantly since May. Victoria has experienced a second fall in employment since July, and in August Victorian employment remained 5.5 per cent below its March level. Employment conditions in the rest of Australia have improved in recent months, but there is still considerable variation across states (Chart 10). This is also true of broader measures of spare capacity, in part reflecting differential effects of COVID-related restrictions.

Chart 10: State and territory levels of employment, indexed to Mar 2020



Source: ABS Labour Force Survey, Australia.

Regional labour market outcomes have been diverse, in part reflecting the industrial composition between regions and the differing degrees to which communities have been affected by health restrictions. For example there are areas of Queensland where tourism accounts for as much as 30 per cent of local employment. In aggregate, however, regional areas have shown relative resilience over the COVID-19 pandemic and positive signs of recovery to date.

Policy support has played a critical role in cushioning the labour market from the COVID-19 shock. The JobKeeper Payment has helped to reduce labour market displacement, maintaining relationships between employers and employees. To date, over 3.8 million individuals have benefited from the JobKeeper Payment.

The outlook for the labour market remains challenging. The recovery in employment seen in recent months will face headwinds in the near term from ongoing international and domestic border closures, the continuation of restrictions in Victoria and the possibility of further business restructuring. Employment growth is expected to strengthen beyond the December quarter 2020, aided by the policy measures the Government has put in place to support the economy and job creation, including the JobMaker Hiring Credit and Boosting apprenticeships wage subsidy policies. Employment growth is forecast to be 1¾ per cent through the year to the June quarter 2022, around its long-run average, but noticeably faster than working-age population growth.

Over the forecast period, total hours worked is expected to grow more quickly than employment, as average hours worked per person recover closer to their pre-COVID-19 level. The employment to population ratio is expected to remain around 1½ percentage points below its March 2020 level in the June quarter 2022.

The **participation rate** is forecast to increase to 65¼ per cent in the June quarter 2021 and 65½ per cent in the June quarter 2022, as people are encouraged to return to the workforce by improving economic conditions, a supportive policy environment, and mutual obligations being re-introduced for JobSeeker recipients.

As a result of the increase in the participation rate, the **unemployment rate** is forecast to rise in the near term, to reach a quarterly peak of 8 per cent in the December quarter 2020. The unemployment rate is then forecast to fall to 6½ per cent by the June quarter 2022, in line with the recovery in activity. It continues to fall over the rest of the forecast period, reaching 5½ per cent by the June quarter 2024.

Overall, the forecast for the unemployment rate is lower than it was in the July Update, reflecting both the more positive outcomes in employment in July and August and the significant additional support to job creation that will come from Government policy.

The outlook for the labour market and the unemployment rate is unusually uncertain. People have returned and will continue to return to work in a number of different ways. Some people who became unemployed or left the labour force altogether at the start of the COVID-19 pandemic will re-enter work, if they haven't already. Others who remained employed but had their hours reduced will increase their hours worked. The level of employment growth, the unemployment rate and participation rate are all potentially subject to large movements in a short space of time — something that has been observed over recent months. Even if developments in the broader economy and aggregate labour demand evolve as forecast, the range of plausible outcomes for labour force participation over the remainder of the year implies a wide range of outcomes for the unemployment rate in the December quarter 2020, between 7¼ per cent and 9 per cent. Looking beyond the near term, the pace of recovery in domestic demand over the next several years will heavily influence the path of the unemployment rate.

Wage growth is expected to remain below average over the forecast period, reflecting significant spare capacity in the labour market. However, a declining unemployment rate beyond the December quarter 2020 is expected to support a gradual pick-up in wages. Recent business liaison discussions support this outlook. The Wage Price Index is forecast to grow by 1¼ per cent through the year to the June quarter 2021 and by 1½ per cent through the year to the June quarter 2022.

Measures of average earnings, such as Average Weekly Earnings and Average Earnings on a National Accounts basis, rose sharply in the June quarter 2020 as lower paid jobs experienced the sharpest decline in employment. The unwinding of these compositional effects is expected to place downward pressure on these measures in the near term.

Consumer prices experienced a record fall of 1.9 per cent in the June quarter 2020, reflecting a range of factors associated with weak demand and also Government policies designed to assist households during the COVID-19 pandemic. Automotive fuel prices fell sharply following a fall in global oil prices, in part driven by falling demand for transport. In addition, the Government's changes to make childcare free during the early stages of the COVID-19 pandemic led to a sharp fall in the price of childcare services. Housing rents experienced a record sharp decline, driven by weak demand and eviction moratoriums in a number of states and territories. Partly offsetting these falls were near record price increases in a number of household items including major household appliances and cleaning products, reflecting the additional demand for home essentials.

Price pressures are expected to remain weak across the forecast period, reflecting the excess capacity in the economy. Despite a sharp rise in market measures of inflation expectations following the June quarter 2020 Consumer Price Index (CPI) release, inflation expectations remain weak by historical standards. Consumer price inflation is forecast to increase to 1¾ per cent through the year to the June quarter 2021, driven by the unwinding of childcare policies and administered price changes in the second half of 2020. Measures of underlying inflation are expected to be near record lows over the first two years of the forecast period, reflecting that there will remain significant additional capacity in the economy for some time and weak wage growth. Consumer price inflation is not expected to return to the bottom of the RBA's target band of 2 to 3 per cent until the end of the forward estimates.

Box 3: Labour market capacity through the COVID-19 pandemic

Economic downturns not only see an increase in the number of people looking for work, but also typically increase the number of people looking for more hours or who want work but are discouraged from looking for work.

The COVID-19 pandemic has exacerbated the extent to which the unemployment rate may underestimate the additional capacity in the labour market. As areas of Australia have been placed under stringent health restrictions, a larger-than-usual share of people may not physically be able to look for work or may be discouraged due to the dramatic change in economic conditions. Further, the JobKeeper Payment has seen a large number of employees remain in employment relationships, but work zero or minimal hours. In these circumstances, labour market indicators that take into account these additional sources of spare capacity provide a better understanding of labour market conditions than the unemployment rate.

In the initial months of the COVID-19 pandemic, measures of underutilisation in Australia rose more sharply than the unemployment rate (Chart 11). The underemployment rate, which captures employed persons seeking more hours, rose by 5.0 percentage points from 8.8 per cent in March to 13.8 per cent in April. The underutilisation rate, which captures both unemployment and underemployment, rose by just over 6 percentage points between March and May to peak at 20.2 per cent.

Chart 11: Underutilisation

Source: ABS Labour Force Survey, Australia.

Since May, the dynamics in the labour market recovery have been consistent with the easing of restrictions and the return towards more-normal working patterns for people who have been working zero or few hours. There has been a pick-up in average hours worked by those in employment and a rise in the proportion of part-time workers who are seeking more hours. In addition, part-time jobs have made up just under 90 per cent of the total increase in employment between May and August, consistent with these jobs being hardest hit by the restrictions.

Box 3: Labour market capacity through the COVID-19 pandemic (continued)

Since their peaks in April and May, the underemployment rate has recovered to 11.2 per cent, and the underutilisation rate to 18.0 per cent in August.

Looking forward, it is reasonable to expect that measures of underutilisation will take more time to decline to pre-COVID-19 levels than the unemployment rate. Recoveries from previous economic downturns, including in the Global Financial Crisis and the early 1990s recession, were characterised by a pick-up in hours worked by employed people and an increase in part-time employment, rather than growth in full-time positions. Reflecting this, and abstracting from long-run trends toward part-time employment, broader measures of labour market underutilisation have tended to remain elevated in the aftermath of these downturns even as the unemployment rate has fallen.

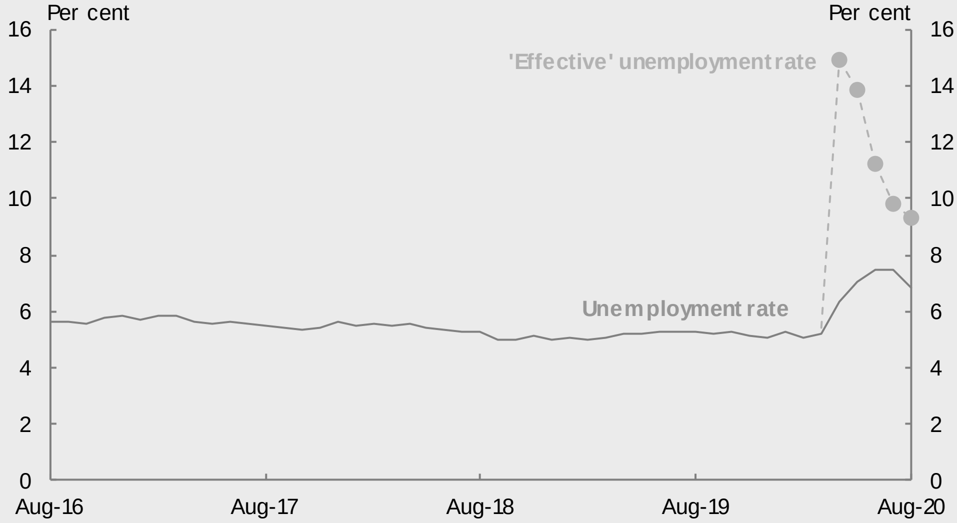
The July Update included estimates of a COVID-19 'effective' unemployment rate. The effective unemployment rate counts the changes in unemployed persons, employed persons working zero hours, and changes in the size of the labour force relative to its size prior to the beginning of the COVID-19 pandemic.[1]

Similar to other underutilisation measures, the COVID-19 'effective' unemployment rate peaked in April at close to 15 per cent, relative to an unemployment rate of 6.4 per cent, reflecting that there were around 1.3 million additional people who were either unemployed, working zero hours or had left the labour force. By August, the effective unemployment rate had declined to around 9¼ per cent, with around 760,000 people back in work despite some upward pressure from the Stage 4 lockdown in Victoria. The effective unemployment rate is expected to converge back toward the unemployment rate as labour market conditions improve (Chart 12).

1 A more detailed methodological description published by the Australian Bureau of Statistics is at www.abs.gov.au/articles/understanding-unemployment-and-loss-work-during-covid-19-period-australian-and-international-perspective.

Box 3: Labour market capacity through the COVID-19 pandemic (continued)

Chart 12: Effective unemployment rate



Source: ABS Labour Force Survey, Australia and Treasury.

While the COVID-19 'effective' unemployment rate has been a useful tool to understand the immediate labour market impacts of the COVID-19 shock, as the labour market recovers, other indicators, such as the underemployment rate, will return to being more useful indicators of spare capacity in the labour market. This is because the number of employed persons working zero hours is expected to normalise as the economy recovers and the JobKeeper Payment ends, and also because changes in the size of the labour force will increasingly be driven by structural factors such as population growth rather than a discouraged worker effect related to the COVID-19 pandemic.

Outlook for nominal GDP growth

Nominal GDP is forecast to fall by 1¾ per cent in 2020-21 and grow by 3¼ per cent in 2021-22. The increase in nominal GDP growth in 2021-22 is not expected to be as strong as the recovery in real GDP growth in that year. This reflects a fall in the terms of trade as iron ore prices are assumed to decline to US$55 per tonne free-on-board (FOB) by the end of the June quarter 2021. In addition, wage and price growth is expected to be subdued across the forecast period, reflecting spare capacity in the labour market.

The level of nominal GDP is expected to be around $585 billion lower over the four years to 2023-24 compared with the 2019-20 MYEFO. This reflects the effect of the COVID-19 pandemic on real GDP over that period, as well as the cumulative effect on the price level from four years of lower-than-expected growth in domestic prices.

The terms of trade are expected to fall by 1½ per cent in 2020-21 and by 10¾ per cent in 2021-22, broadly in line with the technical assumption that prices of iron ore will not be maintained at recently elevated levels. Given the volatility of commodity prices and greater-than-usual uncertainty around the global outlook, a prudent approach to the bulk commodity prices continues to be appropriate. Commodity prices remain a key uncertainty in the outlook for nominal GDP (Box 4).

Iron ore prices have been supported to date by strong Chinese demand. Consultation by Treasury highlighted a relatively common view that, while supply issues from Brazil are easing slightly, in the near term global supply is not expected to recover rapidly and Chinese stimulus is expected to sustain demand. Consequently, the iron ore price is assumed to decline to US$55 per tonne FOB by the end of the June quarter 2021, two quarters later than was assumed in the July Update. Some market and industry participants have highlighted a risk that iron ore prices could remain high for an even longer period of time.

Metallurgical and thermal coal prices have remained subdued alongside lower global demand and uncertainty over China's import policies. The metallurgical coal price assumption is for prices to remain at US$108 per tonne FOB and the thermal coal price assumption is for prices to remain at US$51 per tonne FOB. Some market and industry participants have highlighted that coal prices may increase as the global economy recovers.

Further details on how movements in commodity prices can affect the economy are detailed in *Budget Statement 8: Forecasting Performance and Scenario Analysis.*

Box 4: Sensitivity analysis of the iron ore spot price

Movements in commodity prices can have significant effects on nominal GDP and Commonwealth Government tax revenue. The analysis below provides an indication of the direct impacts on nominal GDP and company tax receipts of altering the timing around the iron ore spot price assumption, holding everything else constant.

If the iron ore price was to fall immediately to US$55 per tonne FOB, rather than by the end of the June quarter 2021 as assumed, nominal GDP could be around $24.8 billion lower than forecast in 2020-21 and $0.6 billion lower in 2021-22. This would result in a decrease in tax receipts of around $2.6 billion in 2020-21 and, due to the timing of company tax collections, a decrease of around $3.7 billion in 2021-22 (Table 3).

By contrast, if the iron ore price was to remain elevated until the end of the June quarter 2021, before falling immediately to US$55 per tonne FOB, nominal GDP could be around $22.9 billion higher than forecast in 2020-21 and $2.9 billion higher in 2021-22. This would result in an increase in tax receipts of around $1.3 billion in 2020-21 and, due to the timing of company tax collections, an increase in tax receipts of around $4.8 billion in 2021-22.

Table 3: Sensitivity analysis of earlier and later falls in the iron ore spot price

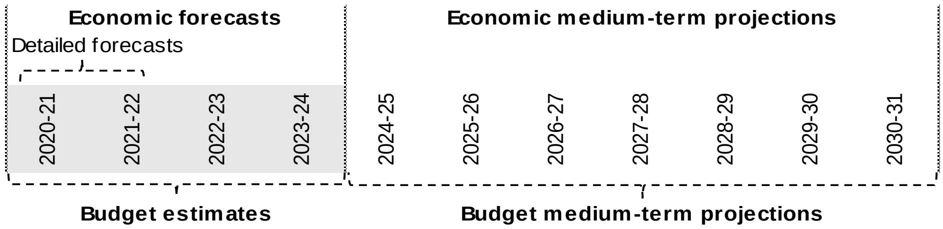
	Earlier fall to US$55/tonne FOB[(a)]		Later fall to US$55/tonne FOB[(a)]	
	2020-21	2021-22	2020-21	2021-22
Nominal GDP ($billion)	-24.8	-0.6	22.9	2.9
Tax receipts ($billion)	-2.6	-3.7	1.3	4.8

(a) FOB is the free-on-board price which excludes freight costs.
Source: Treasury.

Medium-term projections

The fiscal aggregates in this year's Budget are underpinned by forecasts of economic activity over the Budget forward estimates and projections over the medium term (Chart 13).

Chart 13: Medium-term projection period



Source: Treasury.

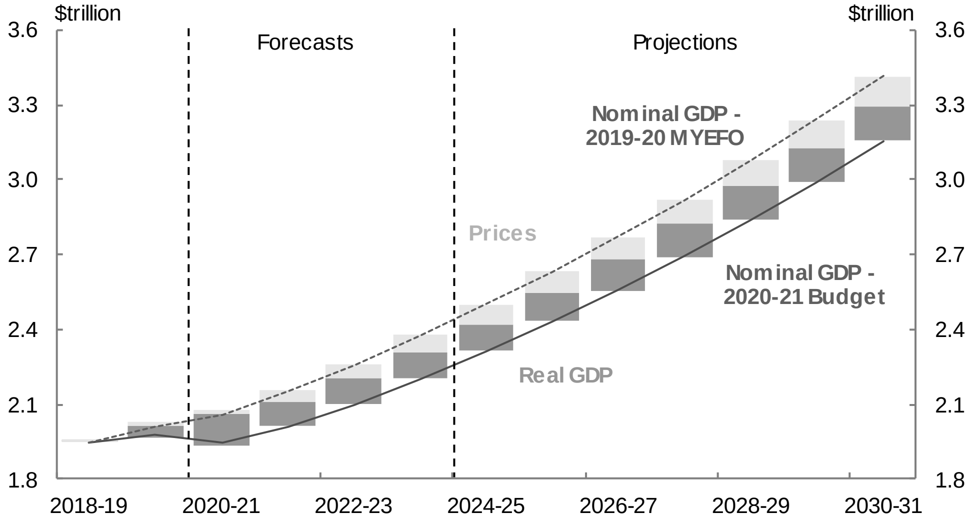
In the Budget and subsequent financial year, more emphasis is placed on detailed sectoral forecasts of the expenditure components of economic activity. Beyond this period, estimates are constructed based on expectations for the level of potential output and modelling of the path by which output converges back to this potential level. An output gap exists if actual output is below potential.

Potential GDP is estimated based on an analysis of trends for population, productivity and participation. As spare capacity in the economy is absorbed over time (that is, the output gap closes), real GDP converges towards its potential level and the unemployment rate converges towards the estimate of the non-accelerating inflation rate of unemployment (NAIRU). On the nominal side, key non-rural commodity export prices are projected based on cost-curve analysis. Domestic prices return over time to the mid-point of the RBA's inflation target band.

Treasury's methodology for preparing these estimates has evolved over time to ensure that it remains fit for purpose and reflects how the economy might evolve beyond the near-term forecasts and in turn provides an informed view about longer-term fiscal sustainability.

Overall, the level of nominal GDP over the forecast and medium-term projection period is permanently lower compared with MYEFO due to the COVID-19 induced recession (Chart 14). This reflects the cumulative effect of a number of years of potential growth being below its previous estimate of 2¾ per cent per annum and inflation being below the mid-point of the RBA target range. The COVID-19 induced recession has seen the emergence of a significant output gap, delaying the economy's return to potential, as well as a protracted period of weakness in business investment which will act as a drag on growth in labour productivity until there is a recovery in business investment.

Chart 14: Current projected nominal GDP



Source: ABS Australian National Accounts: National Income, Expenditure and Product and Treasury.

Potential GDP

Potential GDP growth is estimated to fall below 2 per cent per annum in the near term before gradually returning to 2¾ per cent towards the end of the medium-term projection period (Chart 15). This compares with estimated potential GDP growth of around 2¾ per cent per annum over the decade to 2029-30 in MYEFO. The downgrade to potential growth in the first half of the projection period largely reflects the downgrade to population growth as a result of the COVID-19 pandemic, including through its effect on trend participation.

Working-age population growth is expected to be lower over the medium term than was assumed in MYEFO. This reflects lower net overseas migration, as fewer people are able to enter Australia during the COVID-19 pandemic. Population growth is also affected by a lower fertility rate assumption, which has been updated to reflect recent trends (Box 5).

The trend participation rate is estimated to be lower than at MYEFO, driven by the change in the age-structure of the population as a result of the reduction in net overseas migration. The trend path for average hours has been lowered since MYEFO, reflecting changes to population and an increase in the share of those participating in the labour market on a part-time basis.

Labour productivity growth depends on both trends in underlying productivity[2] and the productive capital stock. Underlying productivity growth is assumed to converge over a 10-year period to the average growth rate in labour productivity over the past 30 years of 1.5 per cent per annum. Increases in underlying productivity lead to complementary increases in the productive capital stock, but this takes time due to costs of adjustment.

2 Underlying productivity is also known as labour-augmenting technical change.

The protracted period of weakness in business investment due to the COVID-19 pandemic will lower growth in the capital stock and in turn labour productivity and future productive capacity until there is a recovery in business investment. This is partly offset by economic support measures that are expected to increase business investment and in turn lead to higher labour productivity growth than otherwise would have occurred.

Closure of the output gap

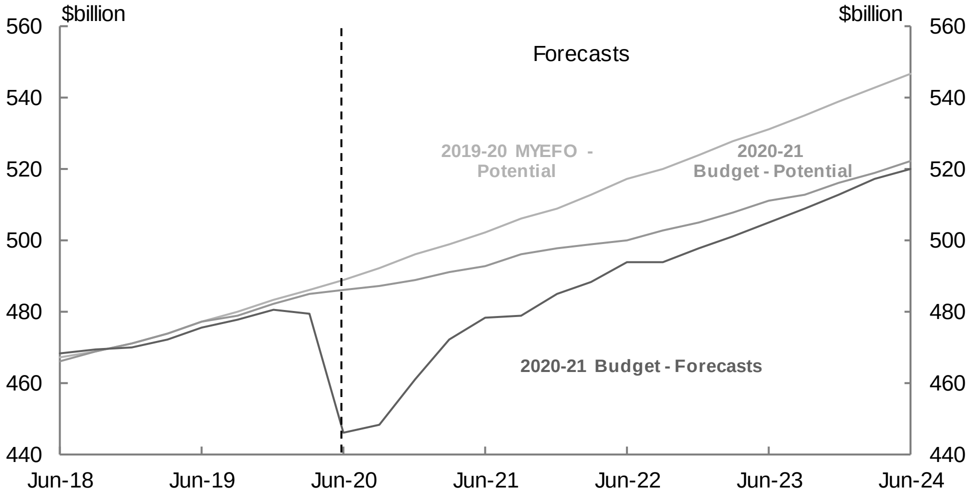
Previous budgets have used a medium-term projection methodology to model the absorption of spare capacity in the economy and the return of domestic prices to the mid-point of the RBA's inflation target based on historical relationships and simple projection rules. In the 2020-21 Budget, the medium-term projection methodology has been enhanced to better capture the interrelationships between economic variables as the output gap closes and the economy returns to potential.

A macroeconometric model of the Australian economy is used to take account of factors such as the nature and level of spare capacity in the economy, the drivers of potential output growth, and the expected path of international trade prices to determine how the economy may evolve over the forward estimates and the medium term. The model allows for a more considered assessment of the path of output beyond the detailed forecast period, including incorporating major policy into the economic forecasts over the budget forward estimates period.

Treasury's macroeconometric model has conventional long-run properties derived from macroeconomic theory. Short-run dynamics are estimated to ensure coherence with economic data. The model's theoretical foundations allow for a better understanding of the causal mechanisms at play within the Australian economy, while paying close attention to the data ensures the model's dynamic properties capture observed historical relationships.

Given the large output gap, spare capacity in the economy is expected to be absorbed over about five years. Over broadly the same timeframe, inflation is expected to return to the mid-point of the RBA's inflation target band and the unemployment rate is expected to gradually converge to 5 per cent, the estimate of the NAIRU.

Chart 15: Potential GDP



Note: This estimate of potential GDP, which is the maximum sustainable level of output, abstracts from the temporary impact of the containment measures on aggregate supply.

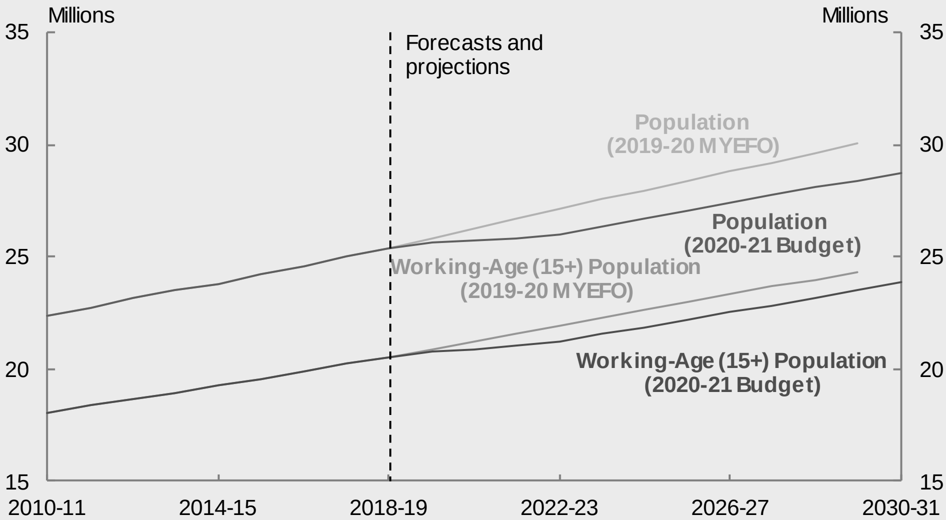
Source: ABS Australian National Accounts: National Income, Expenditure and Product and Treasury.

Box 5: The impact of COVID-19 on population growth

Australia's population growth is expected to slow to its lowest rate in over one hundred years, falling from 1.2 per cent in 2019-20 to 0.2 per cent in 2020-21 and 0.4 per cent in 2021-22. The slower growth is mainly due to measures to limit the spread of COVID-19, which are assumed to lead to NOM falling from around 154,000 persons in 2019-20 to around -72,000 persons in 2020-21, and then to around -22,000 persons in 2021-22.

The negative NOM leads to a permanently lower level of population and working-age population (Chart 16). This is because NOM is not expected to return to levels consistent with pre-COVID-19 travel patterns inside the forward estimates period due to economic uncertainty and softer labour market conditions. It is also not expected to be recovered through higher NOM in subsequent years. Future NOM remains highly uncertain due to uncertainty about the path of COVID-19 and the nature and timing of easing measures taken to contain its spread at home and abroad.

Chart 16 — Population and working age population



Source: ABS National, state and territory population, and Treasury.

Lower population and slower growth in the near term is also due to the assumption that some families will delay having children because of the uncertainty associated with COVID-19. The total fertility rate is assumed to drop from 1.69 babies per woman in 2019-20 to 1.58 in 2021-22, but then rise again to 1.69 in 2023-24 as the delayed births take place in later years. Following this, fertility is assumed to resume its observed trend, which is driven by families having children later in life and having fewer children when they do. The total fertility rate is assumed to decline until it reaches 1.62 babies per woman in 2030-31. As a result, the rate of population growth in the medium term is permanently lower than assumed in 2019-20 MYEFO.

Box 5: The impact of COVID-19 on population growth (continued)

At this stage, Australia has not experienced the same devastating impact on mortality that has been observed in other countries around the world. As a result, COVID-19 is not currently assumed to alter estimates of future life expectancies. This may change depending, for example, on the potential for future outbreaks, the uncertain impact of people deferring their medical treatment due to the COVID-19 pandemic and the long-term health impacts to survivors of the virus, which are still unknown.

Finally, COVID-19 will impact the distribution of population due to a disruption of the historical settlement patterns of NOM and net internal migration (NIM). NIM is directly affected by hard border closures by states and territories, but is also assumed to be lower overall as a result of activity restrictions and uncertainty.

Statement 3: Fiscal Strategy and Outlook

The Government has taken decisive action to support businesses and households through the COVID-19 pandemic. It is deploying the budget and the balance sheet to reduce the impact on the Australian economy and labour market and ensure a strong front-line health response.

In this Budget, the Government is providing an additional $98 billion in response and recovery support, including $25 billion under the COVID-19 Response Package and $74 billion under the JobMaker Plan. This brings the Government's overall response and recovery support since the onset of the pandemic to $507 billion, of which $257 billion reflects direct economic support.

The Government has been able to provide unprecedented levels of fiscal support in response to the COVID-19 pandemic due to Australia's relatively low levels of debt and the hard work undertaken to repair the Budget.

While Australia entered the crisis from a position of economic and fiscal strength, the COVID-19 pandemic will have long-lasting impacts on the economic and fiscal outlook.

The underlying cash balance is expected to be a deficit of $213.7 billion in 2020-21, improving to a deficit of $66.9 billion in 2023-24, and then further improving to a deficit of $49.5 billion at the end of the medium term (2030-31).

Gross debt is expected to be 44.8 per cent of GDP at 30 June 2021 and increase over the forward estimates before stabilising at around 55 per cent of GDP in the medium term. Net debt is expected to peak at 43.8 per cent of GDP at 30 June 2024 and fall to 39.6 per cent of GDP by the end of the medium term.

The Government has revised its Economic and Fiscal Strategy to reflect the significant change in circumstances stemming from the COVID-19 recession and the need for additional support for the economy over the period ahead.

The Government will continue to use fiscal policy to support aggregate demand and confidence, with a focus on a private sector-led recovery to drive employment and productivity. As the economic recovery progresses, the budget position will strengthen.

Once the unemployment rate is comfortably below 6 per cent, the Government will shift its focus towards stabilising and then reducing debt as a share of the economy, while still allowing for flexibility in response to changing economic conditions.

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Statement 3: Fiscal Strategy and Outlook

Overview

The Government has acted quickly and decisively to cushion the Australian economy from the impacts of the global COVID-19 pandemic, providing around $507 billion in overall support since the onset of the crisis.

The Government was well placed to provide unprecedented levels of support to households and businesses due to its responsible fiscal management, having returned the budget to balance for the first time in 11 years.

The once-in-a-century global COVID-19 pandemic has fundamentally reshaped Australia's economic and fiscal outlook.

At the 2019-20 MYEFO, the Government estimated an underlying cash balance of $6.1 billion (0.3 per cent of GDP) in 2020-21, with a surplus of $4.0 billion (0.2 per cent of GDP) expected in 2022-23. The underlying cash balance was projected to remain in surplus throughout the medium term, reaching 1 per cent of GDP in 2026-27.

The underlying cash balance in 2020-21 is now expected to be a deficit of $213.7 billion (11.0 per cent of GDP), improving over the forward estimates to an estimated deficit of $66.9 billion (3.0 per cent of GDP) in 2023-24. The underlying cash balance is projected to further improve over the medium term to a deficit of $49.5 billion (1.6 per cent of GDP) in 2030-31.

The net operating balance is expected to be a deficit of $197.9 billion in 2020-21, with continuous improvement over the forward estimates.

Gross debt is expected to be 44.8 per cent of GDP at 30 June 2021, increasing to 51.6 per cent of GDP at 30 June 2024. Gross debt is projected to stabilise at around 55 per cent of GDP in the medium term.

Net debt is expected to be 36.1 per cent of GDP at 30 June 2021 and peak at 43.8 per cent of GDP at 30 June 2024. Net debt is then projected to fall over the medium term to 39.6 per cent of GDP at 30 June 2031.

While the Government's borrowing requirements have significantly increased since the onset of the COVID-19 pandemic, the projections of debt as a share of the economy remain sustainable and are low in comparison to most other advanced economies.

Table 1: Australian Government general government sector budget aggregates

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$b	$b	$b	$b	$b
Underlying cash balance(a)	**-85.3**	**-213.7**	**-112.0**	**-87.9**	**-66.9**
Per cent of GDP	-4.3	-11.0	-5.6	-4.2	-3.0
Net operating balance	**-92.3**	**-197.9**	**-103.4**	**-83.5**	**-58.5**
Per cent of GDP	-4.7	-10.2	-5.1	-4.0	-2.7
Net debt(b)	**491.2**	**703.2**	**812.1**	**899.8**	**966.2**
Per cent of GDP	24.8	36.1	40.4	42.8	43.8
Gross debt(c)	**684.3**	**872.0**	**1,016.0**	**1,083.0**	**1,138.0**
Per cent of GDP	34.5	44.8	50.5	51.6	51.6

(a) Excludes net Future Fund earnings before 2020-21.
(b) Net debt is the sum of interest bearing liabilities (which include Australian Government Securities (AGS) on issue measured at market value) minus the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).
(c) Gross debt measures the face value of AGS on issue.

Significant uncertainty remains about the impact of further outbreaks and the nature of health and economic policy responses that may be required. The Government will maintain flexibility to respond to circumstances as they evolve. The Government's revised Economic and Fiscal Strategy provides for this flexibility and the COVID-19 Economic Recovery Plan lays the foundation for the recovery, helping to ensure Australia emerges from the pandemic with a stronger, more resilient and more competitive job-making and income-generating economy.

Economic and Fiscal Strategy

The Government's previous fiscal strategy guided steady and sustained fiscal consolidation, with expected increasing surpluses, against the backdrop of a steadily growing economy and low unemployment.

However, the COVID-19 pandemic has fundamentally reshaped the economic and fiscal outlook. The Government has revised its Economic and Fiscal Strategy to reflect the significant change in circumstances and the need for additional fiscal support for the economy over the period ahead. The revised strategy aims to achieve sustainable private sector-led growth and job creation, recognising economic growth will be essential to maintain a sustainable fiscal position.

The Economic and Fiscal Strategy will operate in two phases:

- The COVID-19 Economic Recovery Plan will focus on achieving a strong recovery to quickly drive down the unemployment rate. This phase will remain in place until the unemployment rate is comfortably below 6 per cent.

- The medium-term fiscal strategy will focus on growing the economy in order to stabilise and then reduce gross and net debt as a share of GDP.

The strategy is consistent with the Government's core values of lower taxes and containing the size of government, guaranteeing the provision of essential services, and ensuring budget and balance sheet discipline.

The strategy provides flexibility to respond to changing economic conditions, recognising the economic outlook will continue to remain very uncertain until a COVID-19 vaccine is developed and widely deployed, or the health impact of the COVID-19 pandemic otherwise moderates.

At each Budget update, the Government will review progress on the economic recovery and determine whether adjustments need to be made.

The Government's Economic and Fiscal Strategy is consistent with the requirements of the *Charter of Budget Honesty Act 1998* and is set out in Box 1. *Statement 4: Fiscal Policy and Economic Growth* provides more detail on the changes in the economy and the implications for fiscal policy and the fiscal strategy.

Box 1: The Government's Economic and Fiscal Strategy

The Government's Economic and Fiscal Strategy will drive sustainable, private sector-led growth and job creation and ensure Australia is well-placed to respond to future shocks.

By supporting economic growth now and over the medium-term, the Government's COVID-19 Economic Recovery Plan — of which the JobMaker Plan is a core element — will underpin stronger public finances over time, guaranteed provision of essential services and lower taxes as a share of the economy.

COVID-19 Economic Recovery Plan

The Government's Economic Recovery Plan aims to promote employment, growth and business and consumer confidence through:

- allowing the budget's automatic stabilisers to operate, to support aggregate demand
- temporary, proportionate and targeted fiscal support, including through tax measures that incentivise private sector investment to drive productivity and create jobs
- structural reforms to improve the ease of doing business and increase the economy's long-term growth potential to create the jobs of the future
- continuing to improve the efficiency and quality of government spending.

Progress on the economic recovery will be reviewed at each Budget update. This phase of the Strategy will remain in place until the unemployment rate is comfortably below 6 per cent, at which time the Strategy will be governed by the Government's medium-term fiscal objectives.

Medium-term fiscal strategy

Over the medium term, the fiscal strategy will be focused on growing the economy in order to stabilise and reduce debt. This underlines the commitment to budget and balance sheet discipline and provides flexibility to respond to changing economic conditions.

The strategy is underpinned by the following elements:

- stabilising and then reducing gross and net debt as a share of the economy
- targeting a budget balance, on average, over the course of the economic cycle, that is consistent with the debt objective. This will be achieved by:
  - controlling expenditure growth, while maintaining the efficiency and quality of government spending and guaranteeing the delivery of essential services
  - supporting revenue growth through policies that drive earnings and economic growth, while maintaining a sustainable tax burden consistent with a tax-to-GDP ratio at or below 23.9 per cent of GDP

[continued on next page]

Box 1: The Government's Economic and Fiscal Strategy (continued)

- using the Government's balance sheet to support productivity-enhancing investments that build a stronger economy, support private investment and create jobs
- ongoing structural reforms to boost economic growth.

Fiscal outlook — forward estimates

With the onset of the COVID-19 pandemic, the Government provided targeted and temporary support to replace lost incomes, maintain employee attachment to employers and the labour force, and support household and business confidence. The Government also allowed the automatic stabilisers, including lower tax receipts and higher unemployment benefit payments, to provide vital support to the economy. As a result, the fiscal position has deteriorated, with substantial deficits and elevated debt levels expected over the forward estimates and into the medium term.

An **underlying cash deficit** of $213.7 billion (11.0 per cent of GDP) is forecast in 2020-21, improving to an estimated deficit of $66.9 billion (3.0 per cent of GDP) in 2023-24 (Table 2).

In accrual terms, a **net operating deficit** of $197.9 billion (10.2 per cent of GDP) is expected in 2020-21, improving to an estimated deficit of $58.5 billion (2.7 per cent of GDP) in 2023-24.

Table 2: Australian Government general government sector budget aggregates

	Actual	Estimates				
	2019-20	2020-21	2021-22	2022-23	2023-24	Total(a)
	$b	$b	$b	$b	$b	$b
Receipts	**469.4**	**463.8**	**451.9**	**482.6**	**526.4**	**1,924.7**
Per cent of GDP	23.7	23.8	22.5	23.0	23.9	
Payments(b)	**549.6**	**677.4**	**563.9**	**570.5**	**593.3**	**2,405.2**
Per cent of GDP	27.7	34.8	28.0	27.2	26.9	
Net Future Fund earnings(c)	5.0	na	na	na	na	na
Underlying cash balance(d)	**-85.3**	**-213.7**	**-112.0**	**-87.9**	**-66.9**	**-480.5**
Per cent of GDP	-4.3	-11.0	-5.6	-4.2	-3.0	
Revenue	**486.3**	**472.4**	**464.1**	**491.4**	**538.1**	**1,966.0**
Per cent of GDP	24.5	24.3	23.1	23.4	24.4	
Expenses	**578.5**	**670.3**	**567.5**	**574.9**	**596.6**	**2,409.3**
Per cent of GDP	29.2	34.4	28.2	27.4	27.1	
Net operating balance	**-92.3**	**-197.9**	**-103.4**	**-83.5**	**-58.5**	**-443.3**
Per cent of GDP	-4.7	-10.2	-5.1	-4.0	-2.7	
Net capital investment	4.0	7.8	9.9	11.0	10.8	39.6
Fiscal balance	**-96.3**	**-205.7**	**-113.3**	**-94.5**	**-69.3**	**-482.9**
Per cent of GDP	-4.9	-10.6	-5.6	-4.5	-3.1	
Memorandum:						
Net Future Fund earnings(c)	5.0	3.7	3.8	4.0	4.3	15.8
Headline cash balance	-93.9	-230.0	-123.8	-100.8	-56.2	-510.7

(a) Total is equal to the sum of amounts from 2020-21 to 2023-24.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net cash flows from financing activities for leases.
(c) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability from 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(d) Excludes net Future Fund earnings before 2020-21.

Payments are expected to increase to $677.4 billion (34.8 per cent of GDP) in 2020-21, and then decrease to $593.3 billion (26.9 per cent of GDP) in 2023-24.

Receipts are expected to fall from $463.8 billion in 2020-21 to $451.9 billion (22.5 per cent of GDP) in 2021-22, then increase across the forward estimates to $526.4 billion (23.9 per cent of GDP) in 2023-24.

A **headline cash deficit** of $230.0 billion is expected in 2020-21, improving to an estimated deficit of $56.2 billion in 2023-24.

Underlying cash balance estimates

Table 3 provides a summary of the cash flows of the Australian Government general government sector.

Table 3: Summary of Australian Government general government sector cash flows

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	467.7	463.3	451.7	482.5	526.2
Capital cash receipts(a)	1.7	0.5	0.2	0.2	0.2
Total cash receipts	469.4	463.8	451.9	482.6	526.4
Cash payments					
Operating cash payments	534.2	658.0	542.8	548.2	569.3
Capital cash payments(b)	13.0	17.1	18.7	19.9	21.6
Total cash payments	547.3	675.1	561.5	568.1	590.9
GFS cash surplus(+)/deficit(-)	**-77.9**	**-211.3**	**-109.6**	**-85.5**	**-64.5**
Per cent of GDP	-3.9	-10.9	-5.5	-4.1	-2.9
plus Net cash flows from financing activities for leases(c)	-2.4	-2.4	-2.4	-2.4	-2.4
less Net Future Fund earnings(d)	5.0	na	na	na	na
Underlying cash balance(e)	**-85.3**	**-213.7**	**-112.0**	**-87.9**	**-66.9**
Per cent of GDP	-4.3	-11.0	-5.6	-4.2	-3.0
Memorandum:					
Net cash flows from investments in financial assets for policy purposes	-13.6	-16.4	-11.8	-12.9	10.7
plus Net Future Fund earnings(d)	5.0	na	na	na	na
Headline cash balance	**-93.9**	**-230.0**	**-123.8**	**-100.8**	**-56.2**
Net Future Fund earnings(d)	5.0	3.7	3.8	4.0	4.3

(a) Equivalent to cash receipts from the sale of non-financial assets in the cash flow statement.
(b) Equivalent to cash payments for purchases of non-financial assets in the cash flow statement.
(c) Principal payments on lease liabilities, which are cash flows from financing activities, are deducted in the calculation of the underlying cash balance to maintain consistency of measure following the implementation of AASB 16.
(d) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability from 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(e) Excludes net Future Fund earnings before 2020-21.

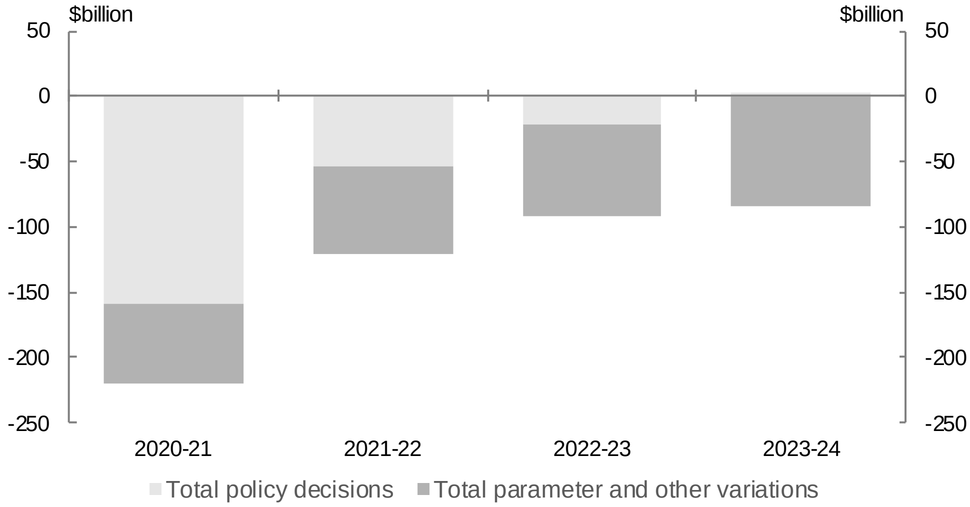
To facilitate the strongest possible health and economic outcomes, the Government has provided necessary and unprecedented levels of fiscal support to deal with the impacts of the COVID-19 pandemic.

Chart 1 and Table 4 show the impact of Government decisions and parameter and other variations on the underlying cash balance from 2020-21 to 2023-24. They show that compared to the 2019-20 MYEFO, the underlying cash balance is expected to be significantly weaker in each year of the forward estimates.

In aggregate, over the four years of the forward estimates, policy decisions are expected to reduce the underlying cash balance by $233.2 billion. Over the course of the forward estimates, the impact of policy decisions on the budget position diminishes, reflecting the targeted and temporary nature of this support.

In 2020-21, policy decisions contributed $159.8 billion to the $219.7 billion deterioration in the underlying cash balance since the 2019-20 MYEFO. This predominantly reflects the Government's fiscal response to the COVID-19 pandemic.

Chart 1: Effect of policy decisions and parameter and other variations on the budget position



Parameter and other variations are expected to result in a $280.6 billion deterioration in the underlying cash balance over the four years of the forward estimates, primarily driven by lower taxation receipts, although higher unemployment benefits also contribute. In 2020-21, parameter and other variations contributed $59.9 billion to the deterioration in the underlying cash deficit, predominantly due to the operation of automatic stabilisers (lower tax receipts and higher unemployment benefits).

Table 4: Reconciliation of underlying cash balance estimates

	Estimates				
	2020-21	2021-22	2022-23	2023-24	Total
	$m	$m	$m	$m	$m
2019-20 MYEFO underlying cash balance(a)	**6,054**	**8,351**	**4,044**	**14,912**	**33,360**
Per cent of GDP	0.3	0.4	0.2	0.6	
Changes from 2019-20 MYEFO to 2020-21 Budget					
Effect of policy decisions(b)(c)					
Receipts	*-11,830*	*-32,815*	*-10,867*	*11,514*	*-43,998*
Payments	*147,952*	*21,045*	*11,324*	*8,866*	*189,187*
Total policy decisions impact on underlying cash balance	-159,782	-53,860	-22,191	2,648	-233,184
Effect of parameter and other variations(c)					
Receipts	*-41,004*	*-54,512*	*-61,329*	*-76,012*	*-232,857*
Payments	*18,922*	*11,981*	*8,407*	*8,475*	*47,784*
Total parameter and other variations impact on underlying cash balance	-59,926	-66,493	-69,736	-84,486	-280,642
2020-21 Budget underlying cash balance	**-213,654**	**-112,003**	**-87,883**	**-66,926**	**-480,466**
Per cent of GDP	-11.0	-5.6	-4.2	-3.0	

(a) 2023-24 as published in the medium term projections, page 36 of the 2019-20 MYEFO.
(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(c) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

Receipts estimates

Total receipts are expected to be $52.8 billion lower in 2020-21 than estimated at the 2019-20 MYEFO, with tax receipts $55.2 billion lower and non-tax receipts $2.3 billion higher. The revisions have been driven by both the impact of the COVID-19 pandemic on the Australian economy and the Government's economic recovery measures in this Budget, which will lower taxes substantially in the near term.

There is significant uncertainty around the outlook for tax receipts. This is driven by the economic outlook and how it will impact taxpayer behaviour and the timing of when tax is collected. Cyclical and discretionary features of the tax system play an important role in cushioning the economy in a downturn. As the economy starts to recover, structural features of the tax system mean that growth in tax receipts will tend to lag nominal GDP, meaning the effects of the downturn can be seen in tax receipts for several years after the initial shock. Because of the progressive nature of personal income tax, average tax rates decrease alongside a fall in income, which means that lower forecast levels of employment and earnings than at the 2019-20 MYEFO will disproportionately impact tax receipts.

There are also significant lags in the tax system for companies, sole traders, partnerships and trusts. This is because while a business will pay instalments through the year, it generally will not finalise its tax liability until the following year. Businesses and investors will also be able to offset losses accrued during the COVID-19 pandemic against tax payable on their profits in coming years (see Box 2, *Statement 5: Revenue* for a discussion of company tax losses).

Policy decisions

Policy decisions since the 2019-20 MYEFO are expected to reduce tax receipts by $13.5 billion in 2020-21 (including $8.6 billion since the July 2020 *Economic and Fiscal Update* (July Update)) and $56.5 billion over the four years to 2023-24. Significant measures include:

- Temporary full expensing which allows businesses with aggregated annual turnover of less than $5 billion to deduct the full cost of eligible capital assets acquired from 7:30pm AEDT on 6 October 2020 (Budget night) and first used or installed by 30 June 2022. This measure is estimated to decrease receipts by $26.7 billion over the forward estimates period

- Bringing forward the second stage of the Personal Income Tax Plan by two years to 1 July 2020 as well as a one-off additional benefit from the low and middle income tax offset (LMITO) in 2020-21. This measure is estimated to reduce receipts by $17.8 billion over the forward estimates period

- Allowing eligible companies to carry back tax losses from the 2019-20, 2020-21 and/or 2021-22 income years to offset previously taxed profits in 2018-19 or later

income years, which is estimated to decrease receipts by $4.9 billion over the forward estimates period.

These measures will support economic growth and recovery by providing targeted support to individuals and businesses while maintaining a sustainable tax burden, now and over the medium term.

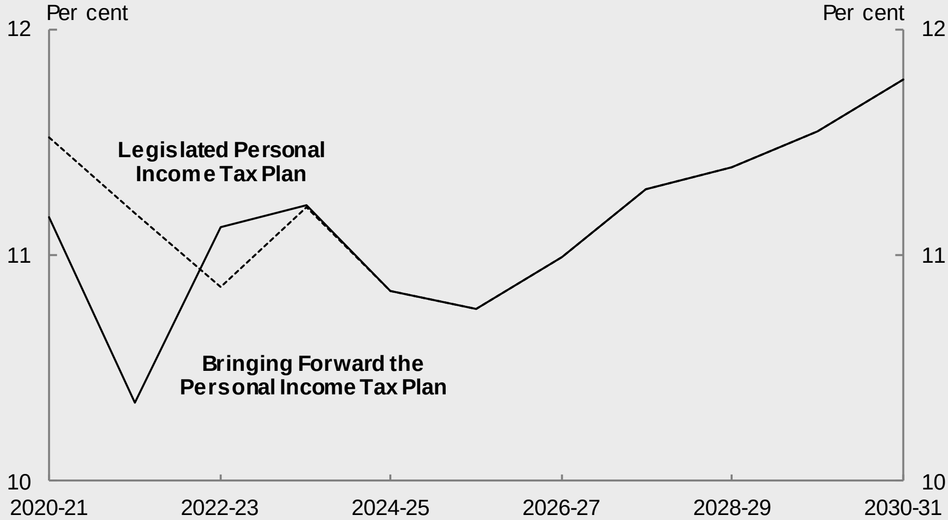
Further details of Government policy decisions are provided in *Budget Paper No. 2, Budget Measures 2020-21*.

Box 2: Impact of the one-off additional low and middle income tax offset and bringing forward Stage 2 of the Personal Income Tax Plan in 2020-21

The Government will continue to deliver lower taxes for hard-working Australians. In 2020-21, individuals will benefit from bringing forward the tax cuts in Stage 2 of the Personal Income Tax Plan, as well as a one-off additional benefit from the low and middle income tax offset (LMITO).

The measure delivers an additional $17.8 billion in tax relief to individuals over the forward estimates period on top of the tax relief already legislated and incorporated in the forward estimates and medium-term tax receipt projections. The bring forward of the legislated changes and the one-off additional LMITO means there is no ongoing budget impact outside the forward estimates period, as shown in Chart 2.

Chart 2: Personal income tax receipts as a percentage of GDP, projected to 2030-31



Note: This series is prepared on a cash basis.

Parameter and other variations

Since the 2019-20 MYEFO, parameter and other variations are expected to reduce tax receipts by $41.6 billion in 2020-21 and $227.0 billion over the four years to 2023-24. Expected GST receipts have been revised down $21.1 billion over the four years to 2023-24 since the 2019-20 MYEFO. These revisions reflect lower forecasts for employment and average earnings, and corporate profits. Downward revisions to GST receipts reflect record falls in the consumption of services, with the components of discretionary consumption that are subject to GST particularly affected.

Further information on expected tax receipts is provided in *Statement 5: Revenue*. Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in *Statement 8: Forecasting Performance and Scenario Analysis*.

Payments estimates

The Government has been able to provide unprecedented levels of fiscal support in response to the COVID-19 pandemic due to Australia's relatively low levels of debt and hard work in repairing the Budget. Since the 2016 election, the Government has implemented around $73 billion of budget repair measures that have strengthened the budget position ensuring there is sufficient fiscal capacity to respond to the significant health and economic challenges from the COVID-19 pandemic.

Reflecting the unprecedented levels of fiscal support, compared with the 2019-20 MYEFO, total nominal payments estimates are expected to increase by $166.9 billion in 2020-21 (including $37.4 billion since the July Update) and by $237.0 billion over the four years to 2023-24. Due to the temporary and targeted nature of fiscal support measures, the payments-to-GDP ratio is expected to initially increase to 34.8 per cent in 2020-21, before decreasing to 26.9 per cent by 2023-24 as the economy grows more strongly as it recovers from the pandemic.

Policy decisions

Policy decisions since the 2019-20 MYEFO have increased total cash payments by $148.0 billion in 2020-21 (including $34.2 billion since the July Update) and by $189.2 billion over the four years to 2023-24 (including $71.3 billion since the July Update). Policy decisions largely reflect the Government's response to the COVID-19 pandemic and decisions to support economic recovery and include:

- amending the eligibility criteria for the JobKeeper Payment and reflecting the expected increased demand for the payment from businesses as a result of stricter COVID-19 restrictions in Victoria, which are expected to increase payments by $15.6 billion in 2020-21

- the JobMaker Hiring Credit to accelerate employment growth by supporting organisations to take on additional employees through a hiring credit, which is expected to increase payments by $850.0 million in 2020-21 ($4.0 billion over the three years to 2022-23)

- providing eligible social welfare recipients, including pensioners, two separate $250 economic support payments, which are expected to increase payments by $2.5 billion in 2020-21 ($2.6 billion over the three years to 2022-23)

- funding to support the delivery of small scale road safety and upgrade projects to provide short term economic stimulus, which are expected to increase payments by $1.0 billion in 2020-21 ($2.0 billion over the two years to 2021-22)

- funding to further support older Australians accessing aged care by providing additional home care packages and continuing to improve transparency and regulatory standards, which are expected to increase payments by $705.0 million in 2020-21 ($2.0 billion over the four years to 2023-24)

- funding to support the *Modern Manufacturing Strategy* which is focused on building competitiveness, scale and resilience in the Australian manufacturing sector, which is expected to increase payments by $79.1 million in 2020-21 ($1.5 billion over the four years to 2023-24).

Parameter and other variations

Parameter and other variations since the 2019-20 MYEFO have increased total cash payments by $18.9 billion in 2020-21 (including an increase of $3.2 billion since the July Update) and by $47.8 billion over the four years to 2023-24.

A large proportion of Government spending is adjusted for indexation each update based on economic parameters. As forecasts evolve, estimates of Government spending will change in line with updated economic forecasts. The increase in payments is primarily driven by the unprecedented economic impacts of the COVID-19 pandemic and include:

- payments relating to the Job Seeker Income Support program, which are expected to increase by $12.3 billion in 2020-21 ($19.7 billion over the four years to 2023-24), largely reflecting an increase in the forecast recipient numbers due to the ongoing impact of the COVID-19 pandemic on the economy and employment levels

- payments relating to Commonwealth Debt Management, which are expected to increase by $1.3 billion in 2020-21 ($10.9 billion over the four years to 2023-24), largely reflecting the higher servicing costs from increased levels of Australian Government Securities on issue

- payments relating the Economic Response to the Coronavirus program, which are expected to increase by $3.3 billion in 2020-21 ($4.1 billion over the four years to 2023-24), reflecting an increase in the forecast number of eligible businesses receiving support under the Cash Flow Boost for Employers

- payments relating to the National Disability Insurance Scheme, which are expected to increase by $1.3 billion in 2020-21 ($3.9 billion over the four years to 2023-24), largely reflecting higher than expected average participant costs
- payments relating to the Employment Services program, which are expected to increase by $486.6 million in 2020-21 ($2.6 billion over the four years to 2023-24), largely reflecting an increase in Jobactive expenditure as a result of the impact of the COVID-19 pandemic on employment levels
- payments relating to Services Australia departmental funding, which are expected to increase by $498.2 million in 2020-21 ($1.1 billion over the four years to 2023-24), largely reflecting increased funding to support the delivery of new and existing Government support measures
- payments relating to the Child Care Subsidy program, which are expected to increase by $228.4 million in 2020-21 ($860.1 million over the four years to 2023-24), largely reflecting increased support for families and demographic changes in the families accessing the program
- payments relating to the Workplace Support program, which are expected to increase by $316.7 million in 2020-21 ($777.5 million over the four years to 2023-24), largely reflecting an increase in payments for employee entitlements under the *Fair Entitlements Guarantee Act 2012* paid to employees who lost their job due to the liquidation or bankruptcy of their employer
- payments relating to the Non-Government Schools National Support program, which are expected to increase by $101.8 million in 2020-21 ($762.9 million over the four years to 2023-24), largely reflecting higher than expected enrolments, including for indigenous students and students with a disability, and the opening of new non-government schools
- payments relating to the Military Rehabilitation Compensation Acts — Income Support and Compensation program, which are expected to increase by $724.1 million in 2020-21 ($640.0 million over the four years to 2023-24), largely reflecting an increase in the number of claims being processed for members of the Australian Defence Force and veterans.

Major decreases in cash payments as a result of parameter and other variations since the 2019-20 MYEFO include:

- payments relating to the provision of GST to the states and territories, which are expected to decrease by $11.8 billion in 2020-21 ($19.5 billion over the four years to 2023-24), consistent with a reduction in GST receipts
- payments relating to the Income Support for Seniors program, which are expected to increase by $131.3 million in 2020-21 (and decrease by $4.8 billion over the four years

to 2023-24), largely reflecting a lower than projected rate of indexation due to the impacts of the COVID-19 pandemic on the economy. As part of the COVID-19 Response Package, the Government has provided $5.0 billion in additional support to senior Australians through the provision of two separate $250 economic support payments to eligible pensioners as part of the Budget measure *COVID-19 Response Package — further economic support* and the two $750 economic support payments outlined in the July Update measure, *COVID-19 Response Package — payments to support households*

- payments relating to the Fuel Tax Credits Scheme, which are expected to decrease by $65.0 million in 2020-21 ($1.3 billion over the four years to 2023-24), largely reflecting lower than expected usage of fuels that are eligible for the Fuel Tax Credits Scheme and a lower than projected rate of indexation due to the impacts of the COVID-19 pandemic on the economy

- payments relating to the Private Health Insurance program, which are expected to increase by $8.2 million in 2020-21 (and decrease by $710.0 million over the four years to 2023-24), largely reflecting a lower than expected number of people taking out health insurance policies and uptake of lower cost policies.

Consistent with previous budgets, the underlying cash balance has been improved by the regular draw down of the conservative bias allowance. Details of this draw down are provided in *Statement 6: Expenses and Net Capital Investment*.

Analysis of the sensitivity of the payments estimates to change in the economic outlook is provided in *Statement 8*: *Forecasting Performance and Scenario Analysis*.

Net operating balance estimates

The net operating balance is an accrual measure, reflecting revenue minus expenses. It excludes the impact of the Commonwealth's net new capital expenditure and helps to distinguish between the Government's capital and recurrent spending.

The net operating balance is expected to be a deficit of $197.9 billion (10.2 per cent of GDP) in 2020-21, compared to an expected surplus of $12.1 billion (0.6 per cent of GDP) in the 2019-20 MYEFO. Table 5 provides a reconciliation of the variations in the net operating balance since the 2019-20 MYEFO.

Table 5: Reconciliation of net operating balance estimates

	Estimates				
	2020-21	2021-22	2022-23	2023-24	Total
	$m	$m	$m	$m	$m
2019-20 MYEFO net operating balance	**12,144**	**17,828**	**11,606**	*	*
Per cent of GDP	0.6	0.8	0.5		
Changes from 2019-20 MYEFO to 2020-21 Budget					
Effect of policy decisions(a)(b)					
Revenue	*-12,301*	*-32,813*	*-10,567*	*11,730*	*-43,951*
Expenses	*127,289*	*20,883*	*11,435*	*9,131*	*168,737*
Total policy decisions impact on net operating balance	-139,590	-53,696	-22,001	2,599	-212,688
Effect of parameter and other variations(b)					
Revenue	*-42,524*	*-54,777*	*-65,228*	*	*
Expenses	*27,918*	*12,775*	*7,883*	*	*
Total parameter and other variations impact on net operating balance	-70,442	-67,553	-73,111	*	*
2020-21 Budget net operating balance	**-197,888**	**-103,420**	**-83,507**	**-58,519**	**-443,334**
Per cent of GDP	-10.2	-5.1	-4.0	-2.7	
Net capital investment					
Effect of net capital investment(c)	7,818	9,906	11,013	10,819	39,556
2020-21 Budget fiscal balance	**-205,706**	**-113,326**	**-94,520**	**-69,338**	**-482,890**
Per cent of GDP	-10.6	-5.6	-4.5	-3.1	

*Data is not available.
(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(b) A positive number for revenue improves the net operating balance, while a positive number for expenses worsens the net operating balance.
(c) A positive number for net capital investment worsens the fiscal balance.

Changes in accrual revenue are generally driven by the same factors as cash receipts, though differences arise where revenue raised in a given year is not received in that year.

Movements in expenses over the forward estimates are broadly similar to the movements in cash payments. The key exceptions include:

- superannuation benefits, where there is a timing difference with the expense accruing during employment and cash payments occurring during retirement; and
- purchases of non-financial assets, which are included in cash payments but not in accrual expenses. The expense estimates include depreciation of non-financial assets rather than recognising the impact at the time of purchase.

Detailed information on expenses can be found in *Statement 6: Expenses and Net Capital Investment*.

Headline cash balance estimates

The headline cash balance consists of the underlying cash balance and net cash flows from investments in financial assets for policy purposes (for example, student loans and equity investment in the NBN). Table 6 provides further detail of differences between the underlying and headline cash balance estimates of the Australian Government general government sector.

The headline cash balance for 2020-21 is estimated to be a deficit of $230.0 billion, compared with a deficit of $2.5 billion estimated at the 2019-20 MYEFO. This deterioration is primarily driven by the underlying cash deficit.

Table 6: Reconciliation of general government underlying and headline cash balance estimates

	Actual	Estimates				
	2019-20	2020-21	2021-22	2022-23	2023-24	Total(a)
	$m	$m	$m	$m	$m	$m
2020-21 Budget underlying cash balance(b)	**-85,272**	**-213,654**	**-112,003**	**-87,883**	**-66,926**	**-480,466**
***plus* Net cash flows from investments in financial assets for policy purposes**						
Student loans	-3,700	-3,406	-3,154	-3,086	-2,867	-12,513
NBN loan	-6,405	-42	0	0	19,500	19,458
WestConnex	-85	0	0	0	0	0
Asbestos removal in the ACT - Mr Fluffy loose fill asbestos remediation	900	0	0	0	0	0
Trade support loans	-148	-106	-70	-54	-45	-275
CEFC loans and investments	108	-533	-184	-323	-286	-1,326
Northern Australia Infrastructure Facility	-122	-328	-604	-778	-839	-2,549
Australian Business Securitisation Fund	-15	-435	-401	-402	-353	-1,591
Structured Finance Support Fund	-1,685	-5,186	-4,010	-4,020	-32	-13,248
Drought and rural assistance loans	-267	-2,806	-441	-216	19	-3,444
Water infrastructure and regional development loans	-90	0	0	0	0	0
Official Development Assistance - Multilateral Replenishment	-169	-78	-127	-128	-132	-465
National Housing Finance and Investment Corporation	-100	-91	-10	-15	-7	-123
Net other(c)	-1,855	-3,364	-2,764	-3,849	-4,219	-14,196
Total net cash flows from investments in financial assets for policy purposes	**-13,632**	**-16,375**	**-11,765**	**-12,871**	**10,739**	**-30,272**
plus Net Future Fund earnings(d)	5,036	na	na	na	na	na
2020-21 Budget headline cash balance	**-93,868**	**-230,029**	**-123,767**	**-100,754**	**-56,187**	**-510,738**
Memorandum:						
Net Future Fund earnings(d)	*5,036*	*3,652*	*3,802*	*4,022*	*4,276*	*15,751*

(a) Total is equal to the sum of amounts from 2020-21 to 2023-24.
(b) Excludes net Future Fund earnings before 2020-21
(c) Net other includes proposed equity payments for infrastructure projects. The amounts have not been itemised for commercial-in-confidence reasons.
(d) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

Recurrent and capital spending

Table 7 outlines estimates of the Government's recurrent and capital spending from 2020-21 to 2023-24.

Table 7: The Government's recurrent and capital spending[(a)]

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	$b	$b	$b	$b
Recurrent spending				
Operating payments	490.4	364.8	365.8	381.2
Recurrent grants	98.4	95.5	95.9	98.1
Total recurrent spending	**588.8**	**460.3**	**461.7**	**479.3**
Per cent of total spending	91.1	88.9	88.4	88.9
Capital spending				
Direct capital investment(b)	19.4	21.1	22.3	24.0
Capital grants	14.4	16.4	15.7	15.4
Financial asset investments	23.5	19.8	22.5	20.4
Total capital spending	**57.3**	**57.2**	**60.6**	**59.8**
Per cent of total spending	8.9	11.1	11.6	11.1
Total spending	**646.1**	**517.5**	**522.3**	**539.1**

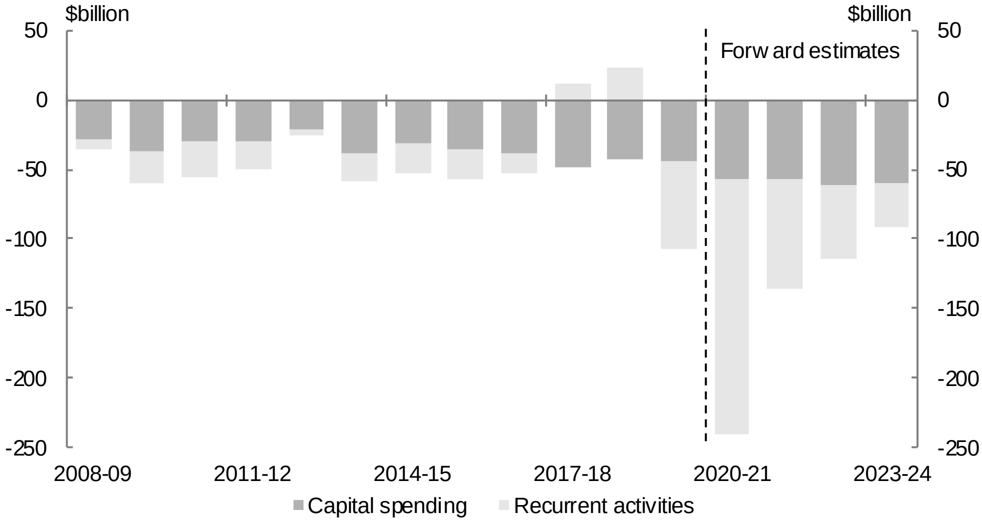
(a) General Revenue Assistance is excluded from this analysis.
(b) Non-financial asset purchases and net cash flows from financing activities for leases.
Note: Recurrent spending includes pension and income support payments, payments to government employees, payments for goods and services, subsidies, grants not made for capital purposes and specific purpose payments to states for recurrent purposes.

Impact of capital and recurrent spending on the borrowing requirement

Chart 3 sets out estimates of the Government's annual borrowing for capital spending and recurrent cash spending. It does this by analysing the net cash flows from recurrent activities (i.e. current revenue less recurrent spending) and the cash flows for capital investment.

In the 2019-20 MYEFO, net cash flows from recurrent activities were expected to be in surplus across the forward estimates and fully fund recurrent activities with borrowing required for capital spending only. With the underlying cash balance in deficit across the forward estimates as a result of the COVID-19 pandemic, the Government now expects to borrow for both recurrent and capital spending.

Chart 3: Contributions of recurrent and capital spending to the Government's borrowing requirement



Note: Net capital spending includes spending for non-financial and financial assets, and capital grants to the states and other entities. From 2019-20 onwards, capital spending includes impacts from the implementation of AASB 16 *Leases*.

Gross debt estimates

Gross debt measures the face value of Australian Government Securities (AGS) on issue. This is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices. Gross debt is a key indicator of fiscal sustainability and, together with net debt, a key focus of the Government's medium-term fiscal strategy.

The Government's economic response to the COVID-19 pandemic, together with large declines in taxation receipts, have driven a sharp increase in government debt.

The face value of AGS on issue is expected to be 44.8 per cent of GDP ($872 billion) at 30 June 2021 and increase to 51.6 per cent of GDP ($1,138 billion) at 30 June 2024.

Net debt estimates

Net debt is the sum of interest bearing liabilities less the sum of selected financial assets. Net debt is a broader measure of fiscal sustainability than gross debt as it includes cash-like assets on the Government's balance sheet as well as the market value of AGS on issue. It provides an indicator of the Government's ability to meet its future debt obligations.

Net debt is estimated to be 36.1 per cent of GDP ($703.2 billion) at 30 June 2021 (as shown in Table 8), higher than the estimate of 18.4 per cent of GDP ($379.2 billion) at the 2019-20 MYEFO. This increase primarily reflects the Government's increased borrowing requirements stemming from the response to and impacts of the COVID-19 pandemic. Net debt is estimated to increase to 43.8 per cent of GDP ($966.2 billion) at the end of the forward estimates.

Further information on gross debt and net debt is provided in *Statement 7: Debt Statement*.

Table 8: Australian Government general government sector net financial worth, net debt and net interest payments

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$b	$b	$b	$b	$b
Financial assets	534.1	512.9	561.0	548.4	546.5
Non-financial assets	175.7	183.0	192.2	202.2	212.3
Total assets	**709.8**	**696.0**	**753.1**	**750.6**	**758.9**
Total liabilities	**1,374.7**	**1,353.4**	**1,507.7**	**1,583.7**	**1,645.2**
Net worth	**-664.9**	**-657.4**	**-754.6**	**-833.1**	**-886.3**
Net financial worth(a)	**-840.6**	**-840.4**	**-946.8**	**-1,035.4**	**-1,098.6**
Per cent of GDP	-42.4	-43.2	-47.1	-49.3	-49.9
Net debt(b)	**491.2**	**703.2**	**812.1**	**899.8**	**966.2**
Per cent of GDP	24.8	36.1	40.4	42.8	43.8
Net interest payments	**13.3**	**13.1**	**13.5**	**13.1**	**13.6**
Per cent of GDP	0.7	0.7	0.7	0.6	0.6

(a) Net financial worth equals total financial assets minus total liabilities.
(b) Net debt is the sum of interest bearing liabilities minus the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

Net financial worth and net worth

Net financial worth is the sum of financial assets less liabilities. It includes all classes of financial assets and all liabilities, only some of which are included in net debt. Both the assets of the Future Fund and the public sector superannuation liability that the Future Fund seeks to finance are included in net financial worth.

Net financial worth is estimated to be -$840.4 billion (-43.2 per cent of GDP) at 30 June 2021 and decline to -$1,098.6 billion (-49.9 per cent of GDP) at the end of the forward estimates. This primarily reflects the Government's increased borrowing requirements stemming from the response to and impacts of the COVID-19 pandemic.

A further measure of the Government's financial position is net worth. Net worth is the sum of all assets less all liabilities. It includes non-financial assets such as buildings and plant, equipment and infrastructure. Net worth is expected to be -$657.4 billion (-33.8 per cent of GDP) at 30 June 2021 and decline to -$886.3 billion (-40.2 per cent of GDP) at the end of the forward estimates.

Medium-term fiscal projections

The medium-term fiscal projections bring together projections of receipts, payments and the Government's assets and liabilities for the seven years beyond the forward estimates period.

They outline the trajectory for the fiscal position under current policy settings and prevailing economic assumptions, and provide the starting point to which future policy changes would be applied.

The medium-term fiscal projections generally follow a base-plus-growth methodology, whereby the forward estimates for receipts and payments form the 'base' to which future growth is applied. Economic parameters are used to estimate growth rates relevant to different components of receipts and payments. Key economic parameters include nominal GDP, consumption, prices and wages, unemployment, population growth and the structure of the population.

The economic parameters that underpin the medium-term fiscal projections are a product of assumptions and are therefore subject to considerable uncertainty. The economic outlook has been significantly affected by the COVID-19 pandemic. The pandemic is still evolving and the outlook remains highly uncertain. The range of possible outcomes for GDP and unemployment in particular is substantially wider than normal. This translates into a higher than usual degree of uncertainty for the fiscal estimates.

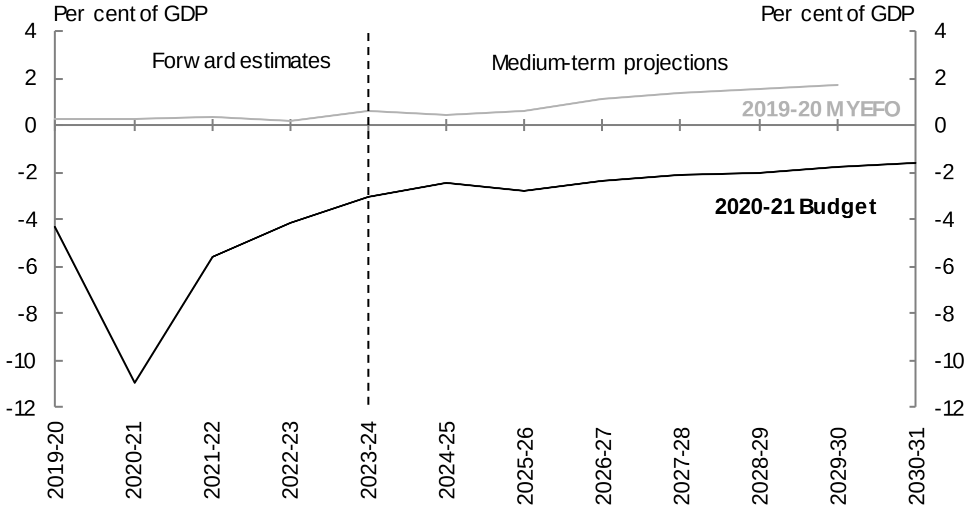
Small changes to underlying assumptions around the economy, or changes to future policy settings, can have large impacts on projections of fiscal aggregates over the medium term. *Statement 8: Forecasting Performance and Scenario Analysis* provides further detail on historical forecasting performance and the impact of changes in certain economic assumptions on forecasts and projections.

The methodology underpinning the medium-term economic projections is explained in *Statement 2: Economic Outlook*.

Underlying cash balance projections

Chart 4 shows the projections of the underlying cash balance as a share of GDP to 2030-31. The underlying cash balance is estimated to fall sharply to a deficit of 11.0 per cent of GDP in 2020-21, and then improve across the forward estimates and the medium term to a deficit of 1.6 per cent of GDP by 2030-31. This improvement over the medium term reflects the temporary nature of most of the spending decisions, alongside a projected strengthening in the economy following the pandemic.

Chart 4: Underlying cash balance as a share of GDP



Note: Net Future Fund earnings are included in the projections from 2020-21.
Source: Treasury projections.

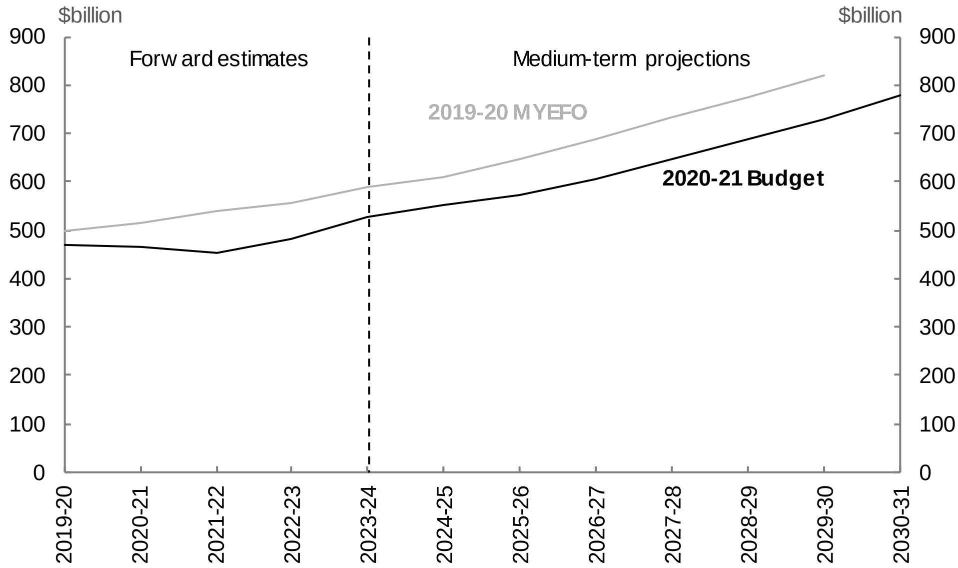
While the economic outlook assumes that the pandemic will subside, the level of nominal GDP over the forecast and medium-term projection period will be permanently lower compared with the 2019-20 MYEFO. This reflects the cumulative effect of a number of years of weak potential growth, along with subdued price pressures. This is further described in *Statement 2: Economic Outlook* and *Statement 4: Fiscal Policy and Economic Growth*.

Receipts and payments projections

The medium-term deterioration in the underlying cash balance is largely driven by a fall in the level of receipts, as receipts are closely linked to economic developments. Chart 5 shows the level of total receipts projected to 2030-31.

Nominal price and wage levels will remain lower than projected at the 2019-20 MYEFO. Given Australia's progressive personal income tax system, lower wage levels will result in a reduction in average tax rates and taxation revenue as a share of the economy across the medium-term. By the end of the medium-term, the tax-to-GDP ratio is expected to reach 22.9 per cent, around 1 percentage point lower compared to the estimate at the 2019-20 MYEFO. Total receipts to GDP are lower than projected at the 2019-20 MYEFO. Further information on tax receipts in the medium term can be found in *Statement 5: Revenue*.

Chart 5: Total receipts

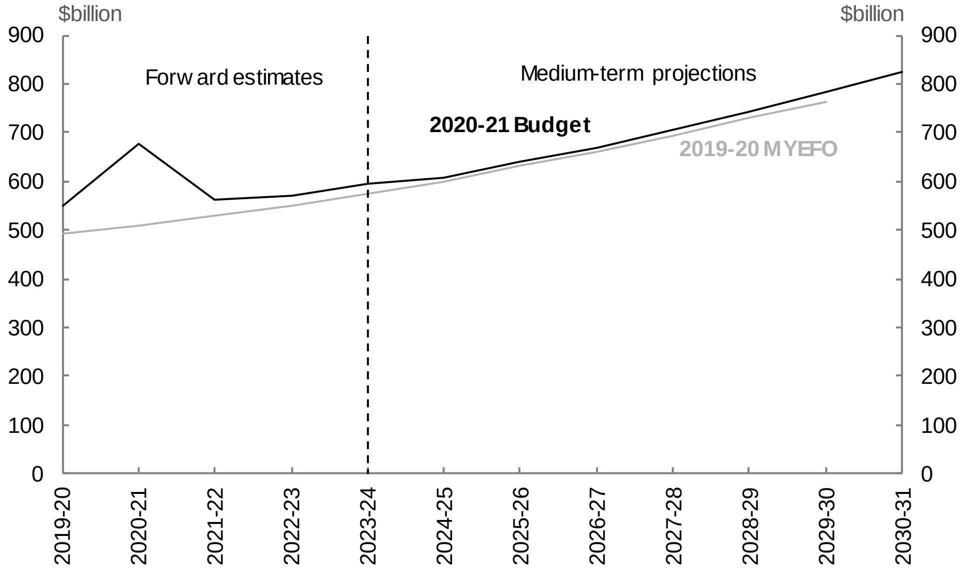


Note: Total receipts include taxation and non-taxation receipts. Net Future Fund earnings are included in the projections from 2020-21.
Source: Treasury projections.

There has been a significant increase in payments in the near term. However, the largely temporary nature of the Government's fiscal support measures results in nominal payments only being slightly higher over the medium term when compared to the 2019-20 MYEFO. Chart 6 shows total payments levels projected to 2030-31.

The small change in nominal payments across the medium term is underpinned by both upwards and downwards movements in various payment programs. Lower prices and wages since the 2019-20 MYEFO have resulted in lower indexation rates for some payment programs, such as Aged Pension and Payments to Individuals, resulting in slower growth in these payment programs. This effect is broadly offset by increased spending in other payment programs such as Health and the National Disability Insurance Scheme. Public debt interest payments are also higher as a result of increased gross debt due to the COVID-19 pandemic. Further information on payments can be found in *Statement 6: Expenses and Net Capital Investment*.

Chart 6: Total payments

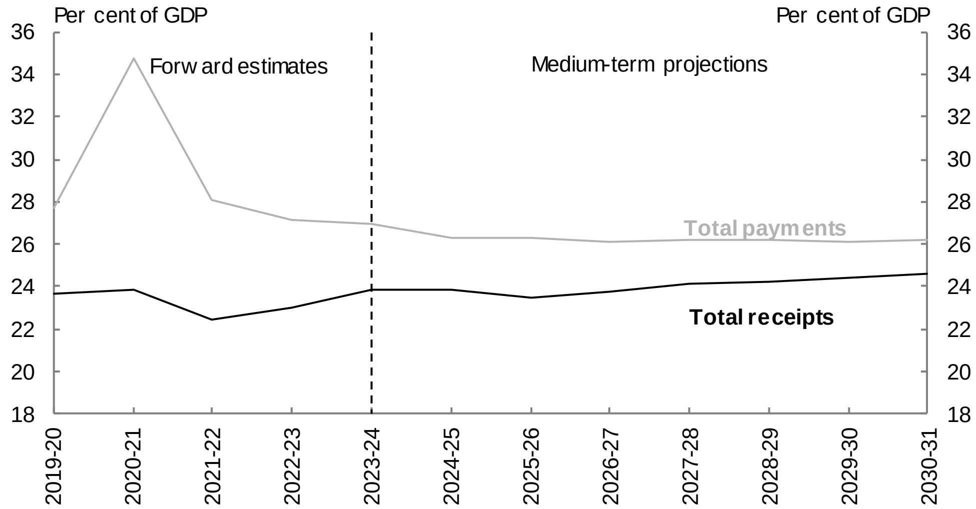


Source: Treasury projections.

Over the medium term, while the level of payments has not changed substantially since the 2019-20 MYEFO, payments are projected to be a larger share of a smaller economy. This is due to the level of payments being less responsive to changes in the economy. At the end of the medium term, payments are 26.2 per cent of GDP, compared with 23.6 per cent of GDP projected in the 2019-20 MYEFO.

Chart 7 shows total payments and total receipts as a share of GDP projected to 2030-31.

Chart 7: Total payments and receipts as a share of GDP



Note: Total receipts includes taxation and non-taxation receipts. Net Future Fund earnings are included in the projections from 2020-21.
Source: Treasury projections.

Gross debt projections

The fiscal support in response to the COVID-19 pandemic has largely been temporary. However there is an ongoing impact from this short-term increased spending, along with lower receipts, on the level of debt and public debt interest costs.

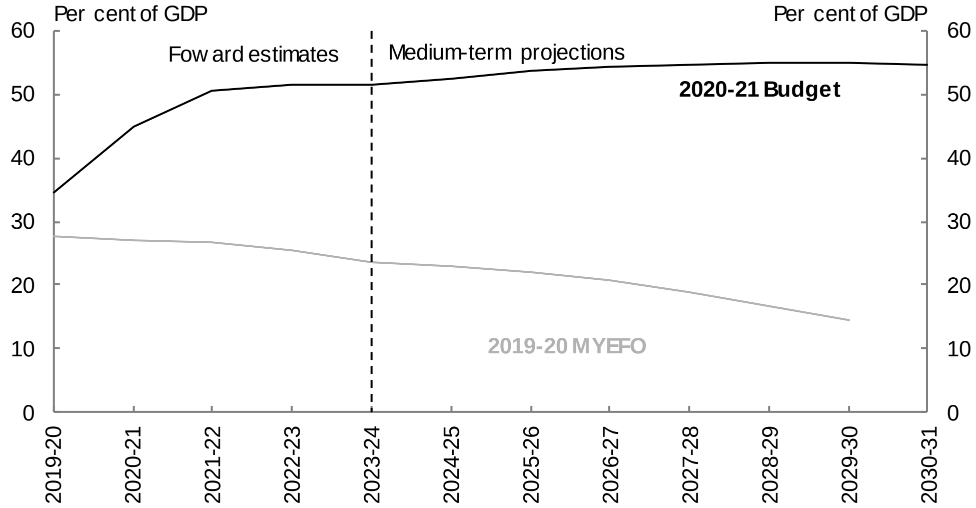
While the Government's debt is projected to increase significantly over the forward estimates and into the medium term, Australia continues to have low debt-to-GDP compared to many other advanced economies. Furthermore, historically low interest rates mean the cost of servicing this debt remains relatively low. Further details on the Government's debt and interest rate (yield) assumptions can be found in *Statement 7: Debt Statement*.

Gross debt is projected to stabilise at around 55 per cent of GDP in the medium term even in the absence of budget surpluses. This reflects the projected strengthening in the economy and budget position following the COVID-19 pandemic, along with the projected continued low cost of borrowing.

Gross debt projections over the medium term also reflect the Government's decision not to draw down on the Future Fund's earnings to meet unfunded superannuation liabilities.

Projected gross debt (face value of AGS on issue) as a share of GDP is shown in Chart 8.

Chart 8: Gross debt as a share of GDP

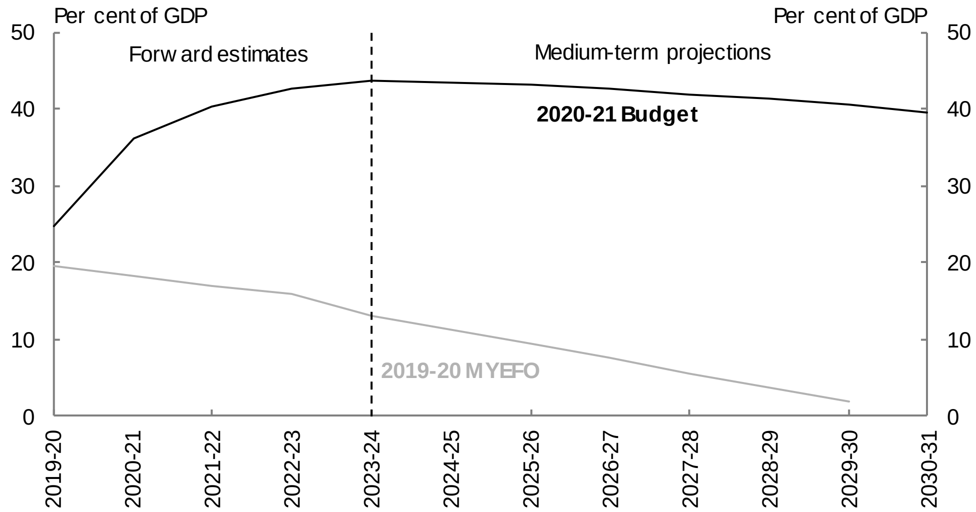


Source: Australian Office of Financial Management and Treasury projections.

Net debt projections

Net debt is estimated to peak at 43.8 per cent of GDP at 30 June 2024, before improving over the medium term to reach 39.6 per cent of GDP at 30 June 2031, as shown in Chart 9. Net debt, as a share of GDP, is projected to fall over the medium term more quickly than gross debt because net debt is based on the market value of AGS which falls as yields rise.

Chart 9: Net debt as a share of GDP

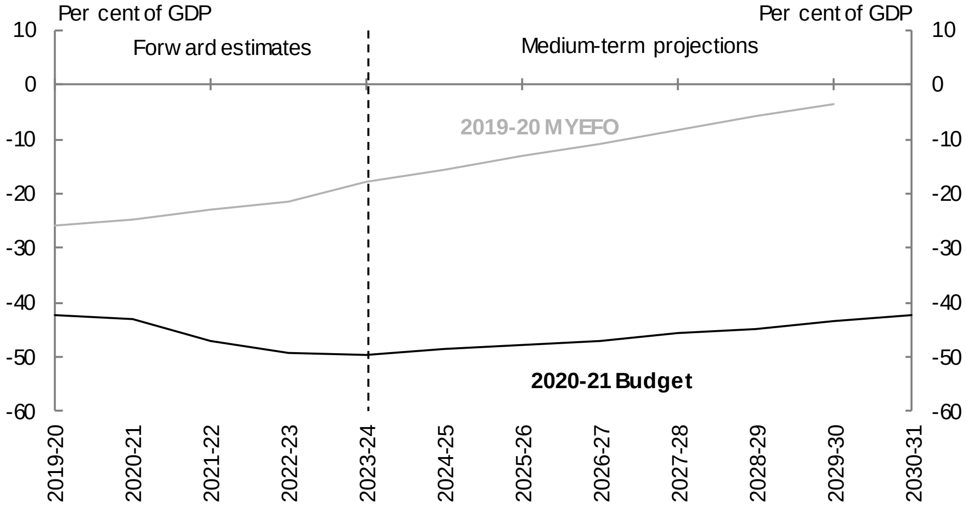


Source: Treasury projections.

Net financial worth projections

Net financial worth also improves as a share of GDP over the medium term, reaching -49.9 per cent of GDP at 30 June 2024, before improving to -42.3 per cent of GDP by 2030-31 as shown in Chart 10.

Chart 10: Net financial worth as a share of GDP



Source: Treasury projections.

Statement 4: Fiscal Policy and Economic Growth

The COVID-19 pandemic is an unprecedented shock. With conventional monetary policy curtailed, the Government is providing significant support to households and businesses. By replacing lost incomes for households, keeping businesses afloat and maintaining links between employees and employers, this support has significantly reduced the decline in output and employment and will mitigate economic scarring from the crisis.

Payments have increased rapidly but are expected to decline from their 2020-21 peak as the economy recovers and temporary measures are scaled back. However, Australia's economy will be persistently smaller as a result of the COVID-19 pandemic, relative to previous forecasts, meaning that spending as a share of GDP will be higher than previously projected across the medium term. In addition, consistent with previous shocks, receipts are likely to take longer to recover than economic activity. As a result, budget deficits are projected across the medium term.

Net debt is projected to peak at 43.8 per cent of GDP at 30 June 2024 and fall to 39.6 per cent by the end of the medium term. The increase in debt is necessary to respond to the pandemic. Australia's debt-to-GDP ratio will remain low compared with most advanced economies. In addition, low interest rates make debt easier to service. With stronger growth and responsible fiscal management, it will be easier to stabilise and begin to reduce debt as a share of GDP, even before budget surpluses can be achieved.

The Government has set out a revised Economic and Fiscal Strategy in response to the COVID-19 pandemic. The previous strategy was to achieve budget surpluses, on average, over the course of the economic cycle. The Government's objective was to deliver surpluses of sufficient size to significantly reduce gross debt and eliminate net debt by the end of the medium term. The previous strategy is no longer appropriate in the current economic and fiscal circumstances.

The revised Economic and Fiscal Strategy supports the Government's objective of achieving a strong economy through sustainable private sector-led growth and job creation, underpinned by a strong government balance sheet.

The first phase of the Strategy — the COVID-19 Economic Recovery Plan — is focused on achieving a strong recovery to drive down the unemployment rate. The Government will continue to provide temporary, proportionate and targeted support to encourage job creation and investment. It will also implement supply-side reforms to make the economy more flexible and productive.

In the second phase, once the economic recovery is assured and the unemployment rate is comfortably back under 6 per cent, the focus will shift to stabilising and then reducing debt over time as a share of GDP, while continuing to push ahead with reforms to lift economic growth.

The JobMaker Plan is a core element of the Government's COVID-19 Economic Recovery Plan. It will support Australians through the COVID-19 pandemic while also delivering a more flexible and dynamic economy. By creating a stronger and more flexible economy, Australia will achieve the longer-term growth needed to reduce debt and build prosperity.

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Statement 4: Fiscal Policy and Economic Growth

Australia's fiscal response to COVID-19

The global COVID-19 pandemic is a once-in-a-century shock. The economic impact has been deeper and sharper than previous recessions in the 1980s and 1990s. Australia's GDP declined by 7.0 per cent in the June quarter 2020, its largest fall on record, after contracting by 0.3 per cent in the March quarter, and considerable uncertainty remains around the outlook (see *Budget Statement 2: Economic Outlook*).

Unlike previous downturns, the current crisis is health-related. To protect the health of citizens, countries closed or restricted international borders and locked down movement and activity within their economies. The COVID-19 pandemic, and the restrictions introduced to limit its spread, are having a severe impact across the economy and changing the way people behave and businesses operate.

Also unlike previous downturns, the Reserve Bank of Australia (RBA) had less capacity to use conventional monetary policy to respond to this shock. Over the past decade, Australia's official cash rate has gradually fallen closer to the 'zero lower bound', partly as interest rates globally have been pushed down by an oversupply of investable funds. This excess saving has been attributed to various factors, including population ageing, a slowing in global productivity growth and increased risk aversion in the wake of the Global Financial Crisis.

In response to the 1990s recession, the RBA cut the official cash rate target by over 10 percentage points and in response to the Global Financial Crisis it cut the cash rate by 4.25 percentage points. At the onset of the COVID-19 pandemic, the cash rate was 0.75 per cent and the RBA reduced it by 0.5 percentage points to 0.25 per cent, bringing it close to the zero lower bound.

In the absence of conventional policy space, the RBA has deployed unconventional measures to support growth and financial system stability. These include: a commitment to hold the cash rate close to the zero lower bound, a yield curve control target for the 3-year government bond yield also at 0.25 per cent, and a Term Funding Facility for the banking system.[1] While these measures are providing meaningful macroeconomic support, their stimulus effect is much less than has historically been provided by monetary policy during sharp downturns.[2]

1 Lowe P (2020), "Statement by Philip Lowe, Governor: Monetary Policy Decision", 19 March 2020.

2 Guttmann R, Lawson T and Rickards P (2020), "The Economic Effects of Low Interest Rates and Unconventional Monetary Policy", RBA Bulletin, September 2020:21-30.

This has increased the importance of fiscal policy in dealing with the COVID-19 shock and the Government has provided unprecedented levels of economic support.

The initial response to the COVID-19 pandemic provided $299 billion in overall support to keep Australians in work and businesses in business. The 2020-21 Budget includes $98 billion in additional support, including $25 billion in further measures in response to the health and economic effects of the COVID-19 pandemic and $74 billion under the JobMaker Plan to drive the economic recovery. This brings the Government's overall support since the onset of the pandemic to $507 billion, including $257 billion in direct economic support.

The COVID-19 Economic Response Package

The Government's initial economic response to the pandemic was tailored to the characteristics of the crisis. The restrictions to address the health impacts of COVID-19 put large parts of the economy into hibernation and represented both a major demand and supply shock that could have led to cascading levels of unemployment and business foreclosures.

The focus of policy was to replace lost incomes for households and provide cash flow support to businesses. Given the nature of the shock, there was also a role for fiscal policy to help maintain employee-employer relationships, in order to speed up the recovery when restrictions were progressively removed.

The Government took unprecedented steps to replace business and household income lost as a result of the pandemic through measures such as the Coronavirus Supplement, which effectively doubled unemployment benefits, the JobKeeper Payment, which subsidised wages paid by organisations that suffered a sufficient decline in revenue, and cash flow assistance measures for businesses. These measures were designed to move in line with economic need, amplifying the effects of the automatic stabilisers.

Automatic stabilisers are features of the tax and transfer system that dampen the size of economic cycles without the need for explicit actions by policymakers. The Government has allowed the automatic stabilisers to operate freely to dampen the effect of the COVID-19 shock. In a downturn, household and business after-tax income falls by less than before-tax income (for instance, due to progressivity in the tax system and loss provisions) and transfer payments increase (due to increases in unemployment benefit payments and income testing of other transfer payments). This provides an economic stimulus that can reduce the magnitude of the downturn.

The three-month review of the JobKeeper Payment found that it successfully halted the rapid employment decline that commenced in the second half of March 2020 and provided a confidence boost to employers and employees. JobKeeper has been extended from late September 2020 until late March 2021 at a reduced payment level and is subject to a reassessment of eligibility. These changes will address findings of the review that some features of the payment created adverse incentives which may become more

pronounced over time, such as dampening incentives to work and hampering labour mobility.

The Government also allowed people affected by the COVID-19 pandemic to gain early access to up to $10,000 of their superannuation in 2019-20 and 2020-21 and worked with lenders to enable households and small businesses to defer loan payments. These measures also provided a substantial boost to household and business balance sheets.

As intended, economic support has had a significant effect on business and household incomes. While gross national income fell in nominal terms by 7.0 per cent in the June quarter 2020, household disposable income rose by 2.2 per cent. Treasury analysis of Australian Taxation Office Single Touch Payroll data and Household Income and Labour Dynamics of Australia data indicates that higher-income households on average saw no change in disposable income between the March and June quarters, while the average income of the lowest income households increased by 20 per cent.

The initial COVID-19 Economic Response Package was targeted at individuals with low or reduced incomes and relatively high propensities to spend. Nevertheless, it was always expected that some support would be saved or used to pay down debt due to restrictions on movement that limited opportunities for households to spend their income. Australian Bureau of Statistics (ABS) survey data provide evidence that a significant proportion of support has been spent. For example, the detailed June release of the Household Impacts of COVID-19 Survey found that only 27 per cent of households who received the $750 Economic Support Payment reported that they had mainly added it to savings. Also, some additional saving does not mean that policy support was excessive. Stronger household balance sheets are expected to be drawn on as restrictions are eased, boosting the economic recovery.

The JobMaker Plan

The JobMaker Plan is a key element of the Government's COVID-19 Economic Recovery Plan, providing for the private sector to return to driving growth in the economy. The JobMaker Plan will deliver the vital investments and reforms necessary to drive a more flexible and dynamic economy and lift Australia's longer-term growth potential.

The immediate priority is to secure a strong and sustained economic recovery to help get Australians back into jobs as fast as possible. Young and low-skilled workers have seen the largest increases in unemployment during this recession. Getting people back into work quickly is the key to avoiding long-term disadvantage following the pandemic.

The pandemic is also driving changes in how we all live and work, which in turn are likely to permanently alter the structure of the economy. Not all firms and workers will return to the same activities they carried out at the start of the year. Some firms will close and some jobs will not return. There may also be permanent shifts in consumer preferences, which will change how Australians work, shop and travel. COVID-19 is

already changing global trade patterns and supply chains. It is also increasing the uptake of digital technology, with more Australians adopting flexible work arrangements.

The COVID-19 pandemic is projected to lower Australia's potential output growth in the near term, by affecting all three supply-side drivers of growth: population, participation and productivity. Working-age population growth and the trend participation rate are now both expected to be lower over the medium term than was expected in the 2019-20 MYEFO due to lower net overseas migration. In addition, weakness in business investment will lower growth in the capital stock and in turn labour productivity. Potential GDP growth is estimated to fall below 2 per cent per annum in the near term before gradually returning to 2¾ per cent towards the end of the medium-term projection period (see *Budget Statement 2: Economic Outlook*).

Only by creating a more flexible and dynamic economy, that allows capital and labour to shift to growing firms and sectors, and investing in our productive capacity, will Australia achieve the strong economic growth needed over the longer term to build prosperity, reduce debt and respond to future economic shocks. The JobMaker Plan addresses this challenge by supporting the economy in the near term, as well as lifting Australia's productivity and creating jobs over the medium term.

Supporting aggregate demand to create jobs

The Government will provide assistance to Australian households through the tax system. This includes personal income tax cuts that will increase the disposable income of Australians, allowing them to spend more to support aggregate consumption and lift business confidence. This will create opportunities for businesses to increase hiring and undertake further investment, supporting the economic recovery.

Major new investments in infrastructure, transport and water — including major projects like Inland Rail, the Western Sydney Airport and the $484 million Dungowan Dam project — will support jobs, improve connectivity, promote private investment, increase resilience and boost the long-run productive capacity of the economy. Bringing forward investments in energy infrastructure, including projects like Marinus Link, VNI West and Project Energy Connect, will also help Australian families and business have access to reliable, affordable energy.

Supporting business to create jobs

Increased business investment is important for building up a larger and higher quality stock of capital across the economy, making businesses more efficient and workers more productive. The Government has already assisted businesses by increasing the instant asset write-off threshold and through the Backing Business Investment measure. The JobMaker Plan expands on this support by allowing full immediate expensing of depreciable assets for 3.5 million eligible businesses (over 99 per cent of all businesses) and through the loss carry-back measure.

The crisis is driving a significant reallocation of capital and labour resources across the economy. The JobMaker Plan will enable businesses and workers to fully engage in the most productive activities, maximising the returns on investments in physical and human capital.

Central to this is the Government's deregulation agenda. Streamlining approvals for major projects, through reforms under the Environment Protection and Biodiversity Conservation Act, and National Cabinet's priority to automatically recognise occupational licences across borders will make it easier for businesses to invest and attract skilled workers. Major changes to Australia's corporate insolvency system will also cut the costs of doing business and support economic and jobs growth.

Maintaining an open economy and giving Australian exporters greater access to global markets are also key to lifting incomes and building economic resilience. More than 70 per cent of Australia's two-way trade is now covered by export agreements, up from 26 per cent in 2012-13, while negotiations on a free trade agreement with the European Union and the United Kingdom continue.

Supporting Australians back into jobs

The JobMaker Plan will also help to create a more highly skilled and flexible workforce, boosting human capital and further lifting productivity.

The JobMaker Hiring Credit will help to accelerate growth in employment by giving businesses incentives to take on additional employees that are aged 16 to 35 years old. This will help young people access job opportunities and rebuild their connection to the labour force as the economy recovers from the COVID-19 pandemic. A new $1 billion JobTrainer fund will give hundreds of thousands of Australians access to new skills by retraining and upskilling them into 'in-demand' sectors. The Government will also spend $252 million to support the delivery of 50,000 higher education short courses in areas such as teaching, health, science, information technology and agriculture.

Opportunities for Australian industries

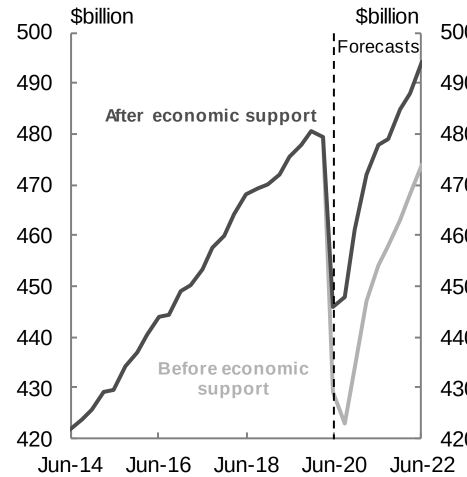
The JobMaker Plan also includes substantial investments in critical sectors. The Government's manufacturing strategy will build scale and capture income in high-value areas of manufacturing where Australia either has established competitive strength or emerging priorities. It will support our manufacturing sector to be even more productive and highly-skilled, collaborative and at the leading edge of R&D, commercialisation and technology adoption. Likewise, the JobMaker Digital Business Plan will move Australia closer to the goal of being a leading digital economy by 2030 and help to position our industries and universities at the cutting edge of innovation, in a more dynamic and competitive world.

By creating a more dynamic and flexible economy and boosting human and physical capital, the JobMaker Plan will help to deliver a stronger and more resilient economy and hence a stronger budget position over the medium term.

The impact of the Government's economic support

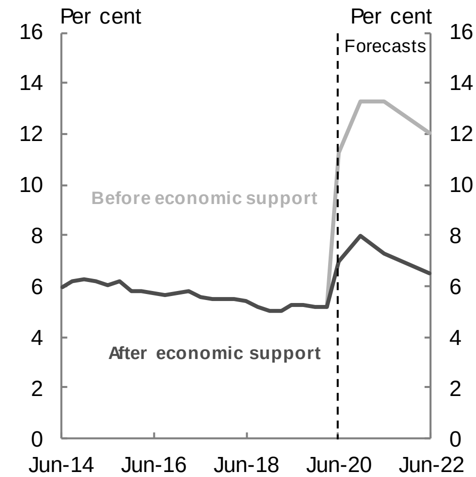
Treasury analysis indicates that Government economic support measures since the onset of the pandemic, totalling $257 billion, are expected to result in economic activity being 4½ per cent higher by 2021-22 and the peak of the unemployment rate being lower by around 5 percentage points than what otherwise would have occurred (Chart 1). Without the Government's economic support, the unemployment rate would have risen, and remained, above 12 per cent throughout 2020-21 and 2021-22 (Chart 2).

Chart 1: Real GDP



Source: ABS Australian National Accounts: National Income, Expenditure and Product and Treasury.

Chart 2: Unemployment rate



Source: ABS Labour Force, Australia and Treasury.

The impact of the Government's economic support measures since the onset of the pandemic has been estimated using Treasury's macroeconometric model of the Australian economy and detailed bottom up analysis of the direct effect of individual measures.[3]

In addition to direct effects, there are substantial indirect effects, including on business and household confidence, business solvency and liquidity, and spillovers to other economic activity. These indirect effects continue to build over time. This is consistent with international evidence that fiscal policy is likely to be more effective when there are large amounts of spare capacity in the economy (especially as restrictions are progressively removed) and when monetary policy is close to the zero lower bound.[4]

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3 This analysis is contingent on assumptions that underpin the forecasts about the spread of the virus, industry containment measures, physical distancing, when a vaccine will become available, and the forecasts of the evolution of the domestic and international economies.

4 See discussion in Ramey VA (2019), 'Ten Years After the Financial Crisis: What Have We Learned From the Renaissance in Fiscal Research?', Journal of Economic Perspectives, vol. 33(2), pp. 89-114.

Implications of COVID-19 for the fiscal outlook

The COVID-19 pandemic has reshaped Australia's economic and fiscal outlook.

In the near term, spending has increased rapidly as the Government has taken unprecedented action to support businesses and households. As a result of the COVID-19 pandemic, payments in 2020-21 are now forecast to be $677.4 billion, over 30 per cent higher than the levels forecast before the pandemic.

This increase in the level of payments has been driven primarily by the Government's targeted and temporary support measures rather than structural changes to the composition of payments. As a result, the level of payments is expected to decline and, over the medium term, broadly return to levels projected at the 2019-20 MYEFO as the economy recovers and temporary support measures are gradually withdrawn.

At the same time, receipts have fallen. In 2020-21 they are estimated to be $463.8 billion, around 10 per cent below the level estimated before the pandemic. This fall in receipts has been driven primarily by the slowing economy, with weaker household income, consumption and capital gains lowering tax receipts.

The Government's temporary full expensing and loss carry-back measures, which will bring forward capital deductions and the utilisation of losses, will help to boost business cash flows and investment in the recovery phase. They will also speed the recovery of company tax receipts at the start of the medium term (Box 1).

Box 1: Government investment incentives contributing to recovery

The Government's temporary full expensing and loss carry-back policies will boost firms' cash flows and encourage investment. In doing so they will also contribute to the operation of the tax system as an automatic stabiliser.

Full expensing will bring forward the timing of tax deductions for investment in depreciating assets, while loss carry-back will bring forward the utilisation of tax losses. In both cases this will reduce the tax burden on businesses while the policies are in force and reduce the amount of tax assets (tax losses and undepreciated asset values) that are carried forward. The effect on tax revenue is a reduction during the pandemic and recovery period, and an increase after the recovery period.

Overall, more of the impact of the pandemic on revenue will be realised in the near term due to the reduction in the level of tax assets that are carried forward after the economy has recovered.

Furthermore, these incentives will contribute to the recovery by encouraging firms to undertake investment before the time-limited policies end. Finally, loss carry-back complements full expensing by preserving the bring-forward of tax asset recognition for firms that experience a tax loss due to the deductions generated by full expensing. without loss carry-back these benefits would not be realised until the business returns to profit.

The fiscal impact of COVID-19 will persist across the medium term. Lower population growth from lower net overseas migration during the COVID-19 pandemic will continue to weigh on the economy. Australia's economy will be persistently smaller as a result of the COVID-19 pandemic, relative to previous forecasts. While growth is expected to recover strongly as restrictions are eased, this will come from a smaller base. By the end of the forward estimates, the level of nominal GDP is expected to be around 7 per cent lower compared with the 2019-20 MYEFO, with this gap gradually widening to around 8 per cent by the end of the medium term.

Spending as a share of GDP will be higher than previously projected across the medium term, predominantly as a result of the smaller nominal economy. At the 2019-20 MYEFO, spending was projected to trend downwards to around 23.6 per cent of GDP by the end of the medium term. In this Budget, spending is still expected to trend downwards, but to 26.2 per cent of GDP at the end of the medium term, around 2½ percentage points higher than previously forecast.

While the rate of growth in prices and wages is forecast to recover to pre-crisis rates, the levels are expected to remain lower than was projected at the 2019-20 MYEFO. Given Australia's progressive personal income tax system, lower nominal wage levels will reduce average tax rates and taxation receipts as a share of the economy. By the end of the medium term, the tax-to-GDP ratio is projected to reach 22.9 per cent, around 1 percentage point lower than expected at the 2019-20 MYEFO.

As a result of the persistent gap between spending and receipts, the underlying cash deficit is projected to still be around 1½ per cent of GDP at the end of the medium term, despite the temporary economic support being unwound.

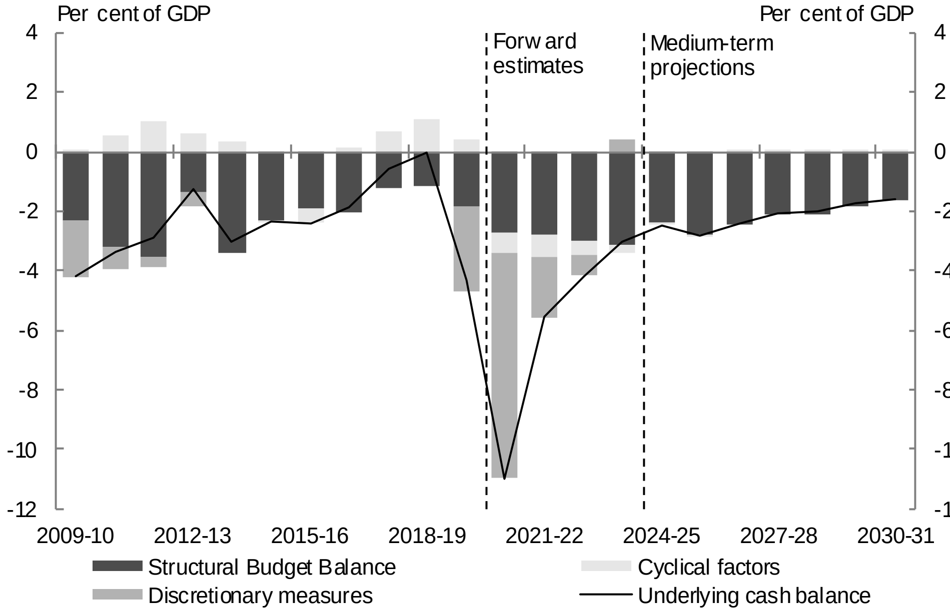
Estimates of the structural budget balance paint a similar picture of the lasting impact of the pandemic on Australia's fiscal position. Structural budget balance estimates attempt to remove temporary movements in receipts and payments. The cause of these shifts include deviations in real GDP, commodity prices, asset prices and the rate of unemployment from their long-run trends, as well as discretionary fiscal measures. Considered in conjunction with other measures, estimates of the structural budget balance can provide broad insights into the sustainability of fiscal settings.

Updated estimates show that there was a persistent structural budget deficit following the Global Financial Crisis, partly reflecting the long-lasting impact of the crisis on tax receipts as a share of GDP. While the structural budget position was estimated to move into a sustained surplus from 2021-22 at the 2019-20 MYEFO, the latest estimates now suggest an ongoing structural budget deficit of around 1½ per cent of GDP by 2030-31 (Chart 3). This reflects the higher payments-to-GDP ratio as well as lower projected tax receipts as a share of GDP over the medium term.

In the near term, the large temporary economic support measures and cyclical factors (including the automatic stabilisers) make significant contributions to the deterioration in the underlying cash balance.

Compared with the 2019-20 MYEFO the projected structural budget balance in 2029-30 has deteriorated by 3½ per cent of GDP. Around 2½ percentage points of this structural deterioration is due to higher payments as a share of GDP. The remaining 1 percentage point reflects lower tax and other receipts as a share of GDP.

Chart 3: Structural budget balance



Note: The presentation of the structural budget balance chart has been adjusted to separate the budgetary impact of temporary discretionary measures from structural factors. This approach follows the methodology detailed in Treasury Working Paper 2013-01. 'Discretionary measures' comprise the total COVID-19 Response Package, and the full expensing, loss carry-back, personal income tax reductions and hiring credit components of the JobMaker Plan. The 'cyclical factors' component comprises the estimated impact on the underlying cash balance of automatic stabilisers and cyclical movements in asset and commodity prices.
Source: Treasury.

Fiscal sustainability after COVID-19

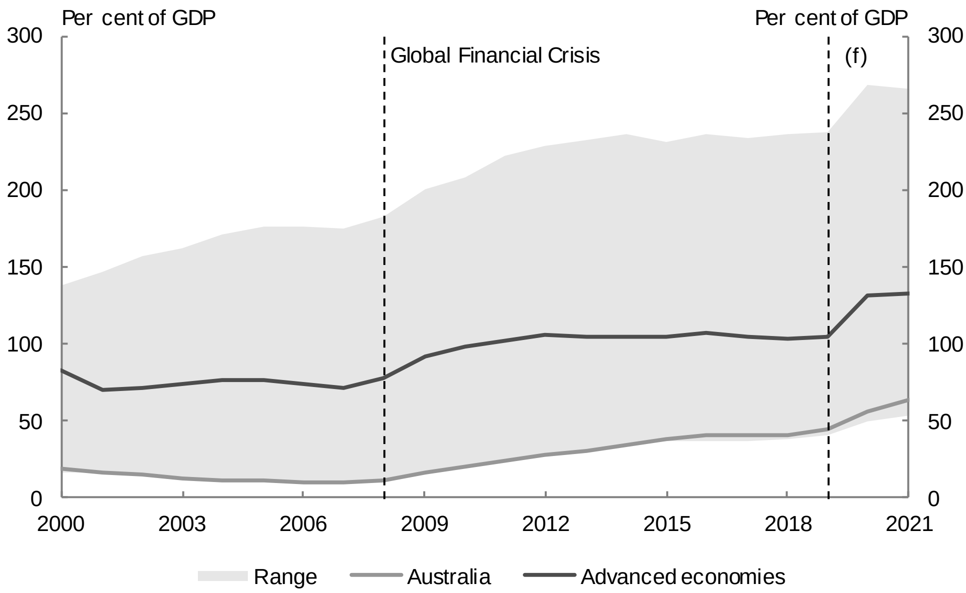
The 2019-20 MYEFO forecast that Australia's net debt would be 19.5 per cent of GDP ($392.3 billion) at the end of 2019-20. This was projected to decline to 1.8 per cent of GDP ($59.8 billion) at the end of 2029-30.

Lower receipts and additional spending in response to the COVID-19 pandemic have resulted in a sharp rise in debt. Gross debt is projected to stabilise at around 55 per cent of GDP in the medium term. Net debt is expected to increase from 36.1 per cent of GDP at 30 June 2021 to peak at 43.8 per cent at 30 June 2024 before declining to 39.6 per cent of GDP by the end of the medium term.

While Australia's debt-to-GDP ratio will be higher than we are accustomed to, it remains sustainable. Current and projected debt levels would enable additional targeted and temporary fiscal support measures being adopted should they be required.

Australia entered the crisis with debt as a share of GDP lower in comparison to most other advanced economies. While our debt-to-GDP ratio will increase as a result of the pandemic, the IMF's June 2020 World Economic Outlook Update indicates that it will remain low compared with most advanced economies (Chart 4).

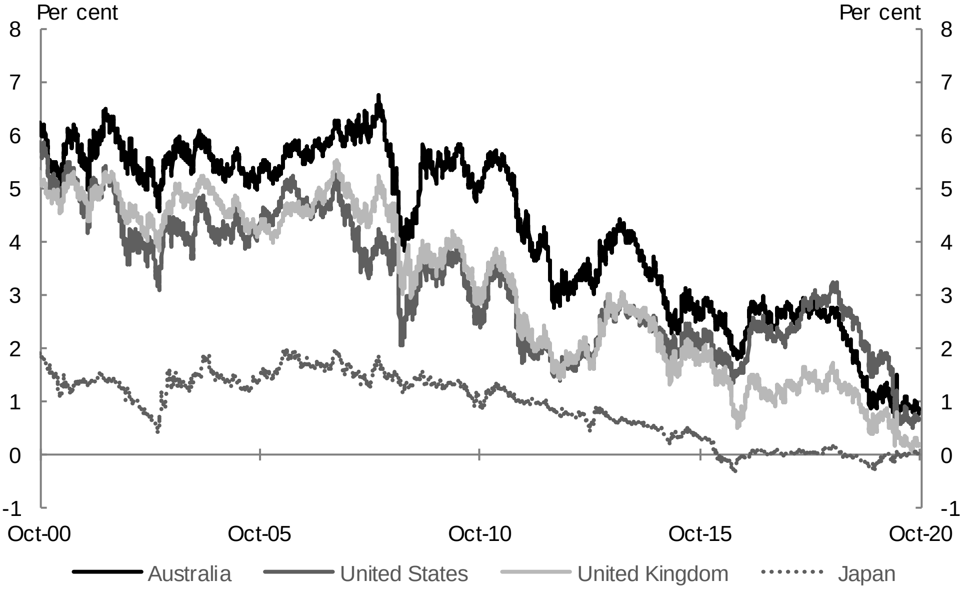
Chart 4: International comparisons of gross debt as a share of GDP



Note: Gross debt data are for the general government sector, which includes debt issued by sub-national governments where applicable. The range has been calculated using a subset of advanced economies — Canada, France, Germany, Italy, Japan, Republic of Korea, Spain, United Kingdom and United States. These are the only countries for which the IMF provided updated public debt projections in its June 2020 WEO Update. The advanced economy line is a weighted average of the IMF's advanced economy grouping.
Source: IMF World Economic Outlook Update, June 2020 and Treasury calculations.

Debt sustainability will also be assisted by historically low interest rates. Borrowing costs are expected to remain low for some time, making it easier to service debt than in the past (Chart 5).

Chart 5: Yields on 10-year government bonds



Source: Bloomberg.

Australia's future growth trajectory will play an important role in debt sustainability. Strong economic growth makes it easier to service debt by directly expanding the size of the economy relative to the amount of outstanding debt. Holding other factors constant, the debt-to-GDP ratio will fall when nominal GDP increases.

As Box 2 explains, a smaller fiscal adjustment is required to stabilise and then reduce debt as a share of GDP when the economy is growing and interest rates are low. When growth is sufficiently high and borrowing costs sufficiently low, it is possible to reduce debt as a share of GDP, even without running budget surpluses. This is evident over the projection period, where nominal GDP growth makes a significant contribution to stabilising the debt-to-GDP ratio (see Box 2).

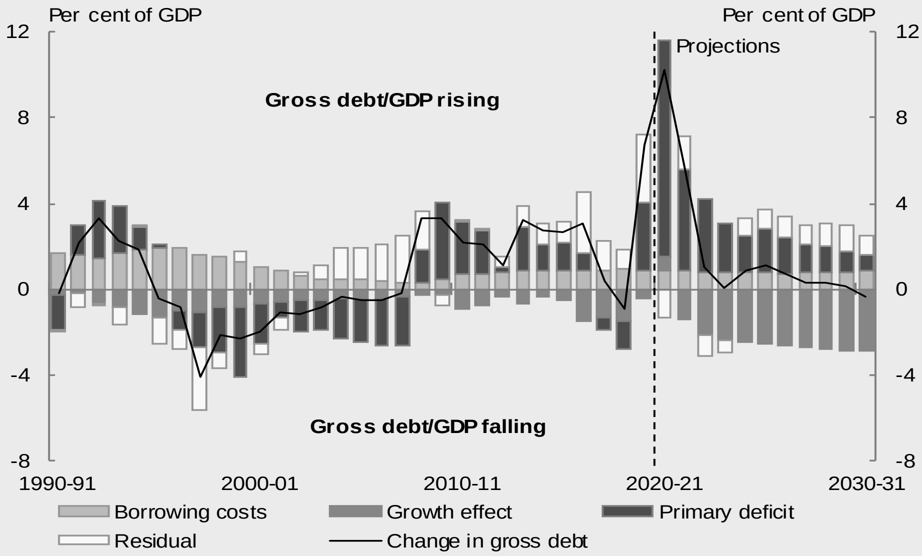
Lifting economic growth will also improve Australia's fiscal position by allowing the Government to transition away from temporary support measures more quickly and because a stronger economy drives higher profits and wages, boosting tax receipts and reducing spending.

Box 2: Understanding fiscal sustainability and debt dynamics

A minimum requirement for fiscal sustainability is that, on average, obligations grow in line with the capacity for the government to raise revenue. Because tax receipts are closely aligned with nominal GDP, the debt-to-GDP ratio is the appropriate measure of debt to use when analysing fiscal sustainability, rather than the dollar value of debt.

Changes in the debt-to-GDP ratio reflect changes in the 'primary balance' (the difference between receipts and non-interest spending), the difference between borrowing costs and the economic growth effect, and a residual that consists of net Future Fund earnings, proceeds from asset sales or outflows from investments, and other accounting factors that affect the measurement of debt (Chart 2A).

Chart 2A: Contributions to changes in gross debt as a share of GDP

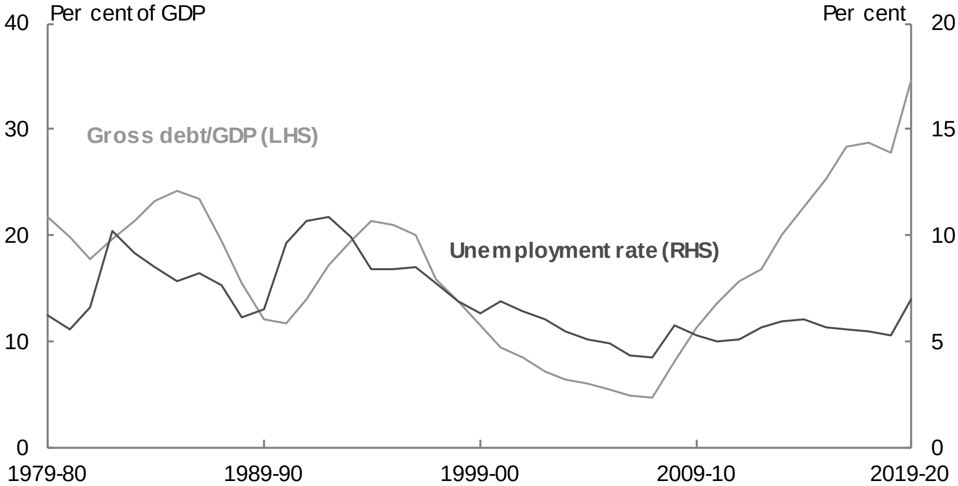


Source: Treasury.

In order to achieve a stable debt-to-GDP ratio, the primary balance only needs to be high enough to exactly offset the gap between borrowing costs and the growth effect. To reduce the debt-to-GDP ratio, these primary balances need to be high enough to more than offset the gap between borrowing costs and the growth effect. The primary balance does not necessarily need to be in surplus in either case. It is possible to reduce the debt-to-GDP ratio with a small primary deficit if the growth effect is greater than the borrowing cost. Other things equal, historically low interest rates, if maintained, mean that the government can stabilise and then reduce the debt-to-GDP ratio with smaller primary balances than have been required in the past.

As the economy recovers, it will be prudent to stabilise and then reduce debt levels over time. This will provide fiscal space to accommodate long-term budgetary pressures and rebuild our fiscal buffers in order to provide support in the event of future shocks. Historical experience shows that the budget position can deteriorate substantially in response to shocks and takes many years to recover (see Chart 6). In part, this reflects the long-lasting impact that a recession can have on the labour market and earnings. Notably, Australia's unemployment rate has typically risen twice as fast as it has fallen. This underscores the importance of the Government's focus on securing a strong recovery to limit the long-term effects of the crisis on firms and workers.

Chart 6: Gross debt and unemployment



Source: ABS Labour Force, Australia and Treasury.

Revised Economic and Fiscal Strategy

In response to the COVID-19 pandemic, the Government has revised its Economic and Fiscal Strategy (see *Budget Statement 3: Fiscal Strategy and Outlook*).

Prior to the COVID-19 pandemic, the fiscal strategy was focused on: investing in a stronger economy to boost productivity and workplace participation; maintaining strong fiscal discipline and containing the size of government; and building to budget surpluses of at least 1 per cent of GDP as economic circumstances permitted. The Government's objective was to deliver budget surpluses of sufficient size to significantly reduce gross debt and eliminate net debt by the end of the medium term.

The nature of the COVID-19 shock means that this is no longer an appropriate course of action. It would now be damaging to the economy and unrealistic to target surpluses over the forward estimates, and would risk undermining the economic recovery needed to underpin a stronger medium-term fiscal position.

The revised strategy consists of two phases. The first phase is focused on achieving a strong economic recovery to drive down unemployment and will be delivered through both the ongoing COVID-19 Economic Response and the JobMaker Plan.

During the first phase, the Government will provide continued support for aggregate demand while introducing important longer-term supply-side and structural reforms through the JobMaker Plan to boost growth and increase our economy's potential output. The Government will allow the automatic stabilisers to work freely to support the economy while continuing to provide temporary, proportionate and targeted fiscal support to incentivise private sector investment to drive productivity and create jobs.

Once the recovery is assured, with the unemployment rate comfortably back under 6 per cent, the Government will shift to the second phase of the strategy. Waiting until the unemployment rate is back below 6 per cent will ensure that economic support is not withdrawn prematurely, helping to prevent economic scarring and increases in long-term unemployment. After the 1990s recession, it took around 2 years for GDP to return to previous levels. However, it took 10 years before the unemployment rate fell back below 6 per cent. Based on current forecasts, the unemployment rate is expected to reach 6 per cent by the June quarter 2023 and 5½ per cent by the June quarter 2024.

The second phase — the medium-term fiscal strategy — will focus on stabilising and then reducing gross debt and net debt as a share of GDP.

The revised Economic and Fiscal Strategy maintains some themes of the previous fiscal strategy. These include a commitment to maintain fiscal discipline through temporary and targeted measures that do not undermine the Budget's structural position, a commitment to keeping the burden of taxation equal to or lower than 23.9 per cent of GDP, and ensuring the delivery of essential services by maintaining the quality and efficiency of government spending.

It also retains, and increases, the focus on economic growth as the key plank of the Government's strategy for budget repair. The JobMaker Plan is central to this strategy.

The revised Economic and Fiscal Strategy will support a strong economic recovery through the JobMaker Plan and help create a more dynamic economy to deliver economic growth and fiscal sustainability into the future.

Statement 5: Revenue

The economic impacts of the COVID-19 pandemic on tax receipts are expected to be both significant and long-lasting. Weaker household and business incomes are weighing on income tax, while weaker consumption has affected indirect tax revenues, such as goods and services tax and excise duties. Parameter and other variations have decreased the forecast for tax receipts by $41.6 billion in 2020-21 and $227.0 billion over the four years to 2023-24 compared with the 2019-20 MYEFO. By the end of the medium term, the tax-to-GDP ratio is expected to be around 1 percentage point lower than expected at the 2019-20 MYEFO.

In addition, new tax policy, including tax relief provided under the Government's COVID-19 Response Package and under the JobMaker Plan, is expected to decrease tax receipts by a further $13.5 billion in 2020-21 and $56.5 billion over the four years to 2023-24 compared with the 2019-20 MYEFO.

In total, estimates of tax receipts have been revised down by $55.2 billion in 2020-21, and $283.5 billion over the four years to 2023-24 compared with the 2019-20 MYEFO.

Since the July 2020 Economic and Fiscal Update, tax receipts estimates have been revised up by $8.7 billion in 2020-21. This is driven by stronger-than-expected labour market outcomes, higher commodity prices, and a shallower-than-expected deterioration in asset prices.

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Statement 5: Revenue

Overview

2020 has been a year unlike any other in recent history. The COVID-19 recession is Australia's first in almost 30 years, and the pandemic represents the greatest challenge for the global economy since the Great Depression. Against this backdrop, tax receipts have already fallen significantly below the level expected at the 2019-20 MYEFO. The impact of this shock is expected to be long-lasting, with lower tax receipts across both the forward estimates and the medium term.

Table 1: Australian Government general government receipts

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
Total taxation receipts ($b)	**431.8**	**424.6**	**413.8**	**442.9**	**487.6**
Growth on previous year (%)	-3.7	-1.7	-2.6	7.0	10.1
Per cent of GDP	21.8	21.8	20.6	21.1	22.1
Tax receipts excluding GST ($b)	**371.5**	**364.7**	**348.3**	**372.8**	**413.7**
Growth on previous year (%)	-3.1	-1.8	-4.5	7.0	11.0
Per cent of GDP	18.7	18.7	17.3	17.8	18.8
Non-taxation receipts ($b)	**37.6**	**39.1**	**38.1**	**39.7**	**38.7**
Growth on previous year (%)	2.5	4.0	-2.6	4.2	-2.6
Per cent of GDP	1.9	2.0	1.9	1.9	1.8
Total receipts ($b)	**469.4**	**463.8**	**451.9**	**482.6**	**526.4**
Growth on previous year (%)	-3.3	-1.2	-2.6	6.8	9.1
Per cent of GDP	23.7	23.8	22.5	23.0	23.9

The impact of the COVID-19 pandemic on 2019-20 tax receipts

In a downturn, the tax system plays an important role as an automatic stabiliser, buffering incomes as taxes fall more sharply than nominal GDP.

The impact of the COVID-19 pandemic was apparent almost immediately through those heads of revenue that respond most rapidly to changes in economic activity. From March, as the COVID-19 recession took hold, tax receipts began to fall steeply below the level anticipated at the 2019-20 MYEFO. In addition, administrative support from the Australian Taxation Office (ATO) further reduced tax collections (Box 1).

The Government's initial tranche of policy support under the COVID-19 Response Package included support through the tax system. Tax policy announced prior to the 2020-21 Budget, included measures such as *increasing and extending the instant asset write-off*, *backing business investment*, and *tax instalment GDP adjustment factor.*

In total, taxation receipts ended 2019-20 $32.0 billion (6.9 per cent) below the 2019-20 MYEFO forecast.

The significant employment impact of the COVID-19 shock was seen in gross income tax withholding on salaries and wages. By the end of 2019-20, personal income tax collections were $9.0 billion below the level expected at the 2019-20 MYEFO.

Company tax collections also fell substantially, as companies were able to vary the tax they paid to better reflect their changing expectations for profitability, or defer payments to a later date. Company tax ended 2019-20 $13.4 billion below the 2019-20 MYEFO forecast.

The impact of record falls in consumption was seen in collections of indirect taxes, such as GST and excise duties. For example, public health restrictions had a significant impact on demand for fuel as consumers responded by travelling less. COVID-19, and related health restrictions, have also had an impact on patterns of consumption. Consumers shifted consumption away from discretionary categories (such as accommodation, and clothing and footwear) and towards categories such as fresh food (which is not subject to GST), magnifying the impact of the fall in consumption on GST collections. By the end of 2019-20, indirect tax collections were $7.5 billion below the level expected at the 2019-20 MYEFO.

Box 1: Supporting households and businesses during a downturn

During the COVID-19 pandemic, a number of factors have worked to support households and businesses. These include structural features of the tax system that act as automatic stabilisers, the ability of taxpayers to vary their tax payments to better reflect their income and administrative powers of the ATO to provide taxpayers with relief such as deferrals.

Features of the tax system such as progressivity in the personal income tax system, the ability to use tax losses to reduce tax liabilities, and GST exemptions on non-discretionary consumption help to support individuals and businesses during downturns. These automatic stabilisers mean that tax liabilities will generally fall by a larger proportion than economic activity.

Taxpayers are able to vary their Pay-As-You-Go instalments within the year to better reflect their expected profits or income, rather than having to wait to lodge their tax return to claim a refund. Company and individuals instalment variations of this kind were around $2.0 billion higher in 2019-20 compared with the previous year.

The ATO also has administrative powers to provide relief to taxpayers by deferring the payment of their tax obligations to a later date.

During the bushfires and the COVID-19 pandemic, the ATO offered administrative support totalling over $26 billion to taxpayers. This includes:

- Activity Statement tax deferrals of $17.3 billion (mostly affecting GST and income tax withholding collections)
- Personal income tax on-assessment deferrals to over 160,000 taxpayers, of over $2.2 billion
- Company tax on-assessment deferrals totalling $6.1 billion.

It is estimated that the collection of over $9 billion of tax receipts will be delayed to 2020-21 as a result of taxpayers accessing ATO assistance in 2019-20. This includes around $4 billion of Activity Statement collections, $3 billion of company tax and around $2 billion of personal income tax collections.

As public health restrictions have been relaxed, the majority of the deferred tax obligations have already been lodged and paid. This includes around 65 per cent of personal income tax deferrals, 75 per cent of company tax deferrals and around 90 per cent of Activity Statement deferrals.

Outlook over the forward estimates period

While the pace of output growth is forecast to pick up in late 2020, in line with the gradual easing of containment measures and Government support, a number of features of the tax system mean that after a shock, receipts can take longer to recover than economic activity. In addition, new tax policy to provide tax relief to households and businesses as part of the Government's COVID-19 response will reduce tax receipts in the near term.

Excluding the impact of new tax policy, tax receipts growth is expected to be subdued in 2020-21 before gradually picking up across the forward estimates. The recovery in receipts lags the expected increase in economic output in part due to the ability of entities to use tax and capital losses to offset taxable income and capital gains. For more on the timing of tax receipts see *July 2020 Economic and Fiscal Update*, Box 3.2: The COVID-19 shock and the timing of tax receipts.

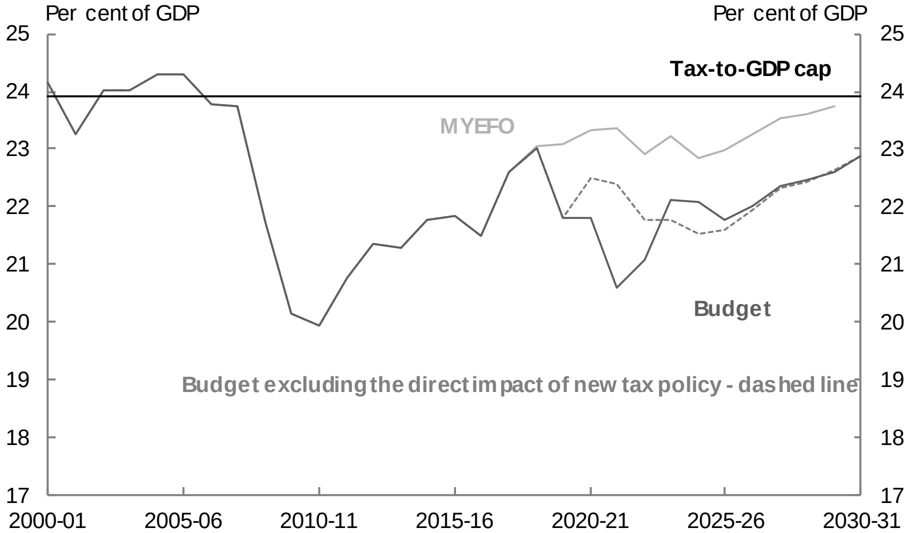
Once new policy is taken into account, tax receipts are expected to fall by 1.7 per cent in 2020-21 and 2.6 per cent in 2021-22, before recovering strongly towards the end of the forward estimates.

Given the magnitude and enduring impact of the COVID-19 shock, there is substantial uncertainty around the time and pace of recovery in tax receipts. Additionally, uncertainty in tax receipt forecasts is heightened by the unprecedented size of Government measures designed to cushion the impact of the shock.

Outlook over the medium term

The key tax initiatives in the Government's COVID-19 Economic Recovery Plan have been carefully calibrated to boost confidence and investment, to support the economic recovery in the near-term while not structurally impacting the medium and longer term fiscal position. Indeed, the Government's plan to grow the economy will support more people in work and business, and that is expected to support tax receipts over the medium term. Tax receipts will also increase at the start of the medium term, as the tax incentive measures are temporary and largely bring forward tax deductions or the utilisation of losses from future years.

Chart 1: Tax receipts over the medium term



Source: Treasury.

Nevertheless, the impact of the COVID-19 pandemic on the economy and consequently tax receipts will be long-lasting. Lower population growth from lower net overseas migration during the COVID-19 pandemic will weigh on the economy into the medium term. While the growth of prices and wages will recover to pre-crisis rates, the levels will remain lower than was projected at the 2019-20 MYEFO.

Given Australia's progressive personal income tax system, lower wage levels will result in a reduction in average tax rates and taxation receipts as a share of the economy across the medium term. By the end of the medium term, the tax-to-GDP ratio is expected to reach 22.9 per cent, around 1 percentage point lower than expected at the 2019-20 MYEFO.

Variations in taxation receipts estimates

Relative to the 2019-20 MYEFO, forecasts of total taxation receipts have been revised down substantially across the four years to 2023-24. These variations largely reflect the impact of the COVID-19 pandemic and related health restrictions on the Australian economy. Revisions are present across all major heads of revenue.

Table 2: Reconciliation of Australian Government general government taxation receipts estimates from the 2019-20 MYEFO

	Estimates				
	2020-21	2021-22	2022-23	2023-24	Total
	$m	$m	$m	$m	$m
Tax receipts at 2019-20 MYEFO	**479,797**	**503,427**	**517,705**	*	*
Changes from 2019-20 MYEFO to 2020-21 Budget					
Effect of policy decisions	-13,506	-36,523	-14,347	7,906	-56,469
Effect of parameter and other variations	-41,648	-53,106	-60,446	-71,783	-226,983
Total variations	-55,154	-89,628	-74,793	-63,877	-283,452
Tax receipts at 2020-21 Budget	**424,643**	**413,799**	**442,912**	**487,645**	**1,768,998**

* Data is not available.

The key economic parameters that influence tax receipts are shown in Table 3.

Table 3: Key economic parameters for revenue(a)

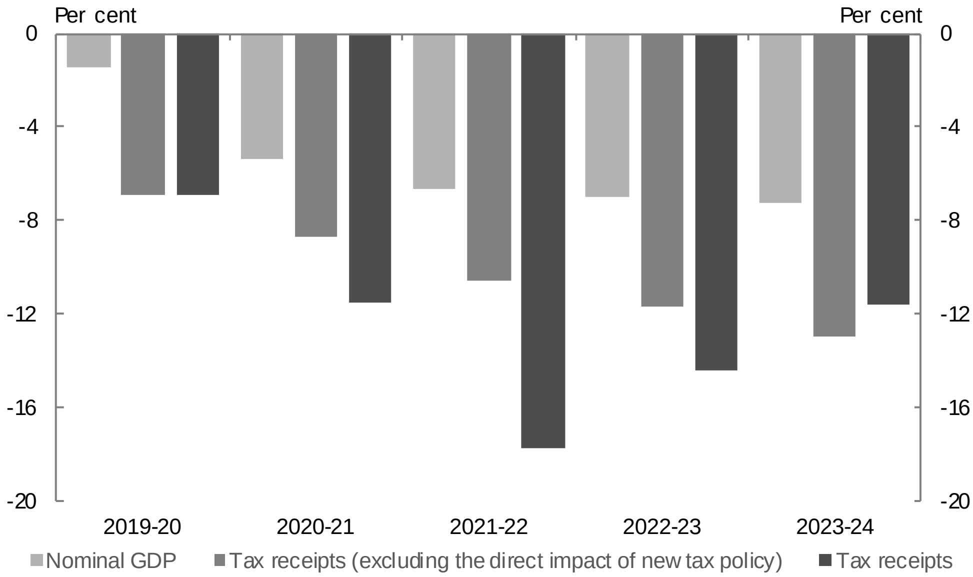
	Outcomes	Forecasts			
	2019-20	2020-21	2021-22	2022-23	2023-24
Nominal gross domestic product	1.7	-1 3/4	3 1/4	4 1/2	5
Change since 2019-20 MYEFO		*-4*	*-1 1/2*	*- 1/4*	*na*
Compensation of employees(b)	3.7	1	3/4	4	4 1/4
Change since 2019-20 MYEFO		*-3 1/4*	*-3 1/2*	*- 1/2*	*na*
Corporate gross operating surplus(c)	7.9	- 1/4	-8 1/2	5	5 1/4
Change since 2019-20 MYEFO		*2*	*-13 1/4*	*0*	*na*
Non-farm gross mixed income	4.8	11	-8 3/4	2	5 3/4
Change since 2019-20 MYEFO		*5 1/2*	*-16 1/4*	*-5*	*na*
Property income(d)	-3.8	-14 1/4	13 1/2	3 1/2	4 3/4
Change since 2019-20 MYEFO		*-20*	*8 3/4*	*-1 1/2*	*na*
Consumption subject to GST	-4.1	-4 3/4	10 1/4	8	7
Change since 2019-20 MYEFO		*-9 1/2*	*5*	*2 3/4*	*na*

(a) Current prices, per cent change on previous year. Changes since the 2019-20 MYEFO are percentage points.
(b) Compensation of employees measures total remuneration earned by employees.
(c) Corporate gross operating surplus is an Australian System of National Accounts measure of company profits, gross of depreciation.
(d) Property income measures income derived from rent, dividends and interest.
na: not applicable
Source: ABS Australian National Accounts: National Income, Expenditure and Product, and Treasury.

While downward revisions to the forecast for nominal GDP have been significant, the revision to tax receipts has been larger. This has been a feature of previous downturns, including the global financial crisis, as the tax system acts as an automatic stabiliser to cushion the economy. Given the magnitude and enduring impact of the COVID-19 shock, there is substantial uncertainty about whether tax receipts growth will recover as quickly as seen following previous downturns.

In 2020-21, tax receipts as a share of GDP are expected to be 21.8 per cent, 1.5 percentage points lower than the 2019-20 MYEFO estimate. For more on the role of the tax system as an automatic stabiliser see *Budget Statement 4, Budget Paper No. 1*.

Chart 2: Revisions to nominal GDP and tax receipts estimates since the 2019-20 MYEFO

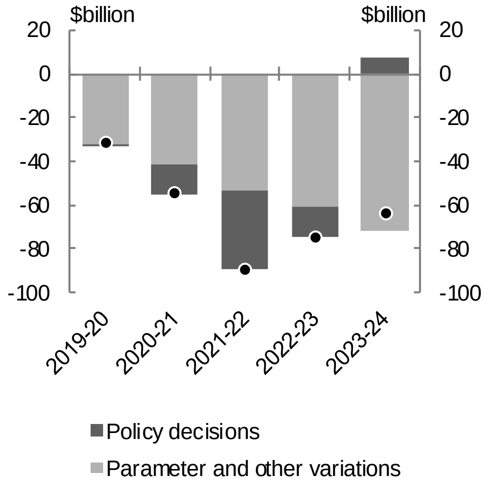


Source: Treasury.

Parameter and other variations account for $41.6 billion of the revision to tax receipts since MYEFO in 2020-21 and $227.0 billion across the four years to 2023-24.

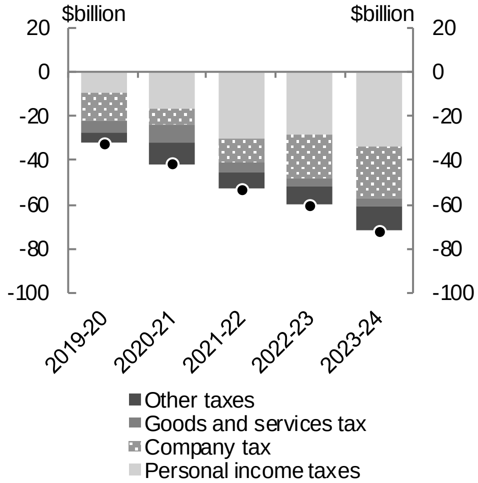
Tax policy has also been used to support household and business income, through policies such as *JobMaker Plan – Bringing forward the Personal Income Tax Plan and retaining the low and middle income tax offset*, *JobMaker Plan – temporary full expensing to support investment and jobs* and *JobMaker Plan – temporary loss carry-back to support cash flow*. Together, the tax policy decisions are expected to lower tax receipts by $13.5 billion in 2020-21 and $56.5 billion across the four years to 2023-24. Over the eleven years to 2030-31, new tax policy decisions are expected to lower tax receipts by over $35 billion.

Chart 3: Revisions to total tax receipts since the 2019-20 MYEFO



Source: Treasury.

Chart 4: Parameter and other variations to total tax receipts since the 2019-20 MYEFO



Source: Treasury.

Variations in receipts estimates

In addition to taxation receipts, total receipts includes money received from other sources such as interest and dividends, as well as the sale of goods and services. The downgrade in forecasts of total receipts is predominantly driven by taxation receipts.

Table 4: Reconciliation of Australian Government general government receipts estimates from the 2019-20 MYEFO[(a)]

	Estimates				
	2020-21	2021-22	2022-23	2023-24	Total
	$m	$m	$m	$m	$m
Receipts at 2019-20 MYEFO	**516,598**	**539,245**	**554,843**	*	*
Changes from 2019-20 MYEFO to 2020-21 Budget					
Effect of policy decisions	-11,830	-32,815	-10,867	11,514	-43,998
Effect of parameter and other variations	-41,004	-54,512	-61,329	-76,012	-232,857
Total variations	**-52,834**	**-87,327**	**-72,196**	**-64,497**	**-276,855**
Receipts at 2020-21 Budget	**463,764**	**451,918**	**482,647**	**526,363**	**1,924,692**

* Data is not available.
(a) Includes expected Future Fund earnings.

Since the 2019-20 MYEFO, total receipts have been revised down by $52.8 billion in 2020-21 and $276.9 billion over the four years to 2023-24.

Since the 2019-20 MYEFO, parameter and other variations have reduced total receipts by $41.0 billion in 2020-21 and $232.9 billion across the four years to 2023-24.

Policy decisions reduce receipts by a further $11.8 billion in 2020-21 and $44.0 billion over the four years to 2023-24 compared with the 2019-20 MYEFO.

Individuals and other withholding taxation receipts

Since the 2019-20 MYEFO, total individuals and other withholding taxation receipts have been revised down $24.4 billion in 2020-21 and $130.0 billion over the four years to 2023-24. Individuals and other withholding taxation receipts are expected to fall by 2.0 per cent in 2020-21 and grow by 2.7 per cent on average over the four years to 2023-24.

Excluding new policy, individuals and other withholding taxation receipts have been revised down $16.2 billion in 2020-21 and $108.6 billion over the four years to 2023-24. This reflects downward revisions to employment and average earnings, as well as unincorporated business income and other sources of non-salary and wage income, such as dividends and capital gains.

The Government will continue to deliver lower taxes for hard-working Australians. In 2020-21, individuals will benefit from bringing forward the tax cuts in Stage 2 of the Personal Income Tax Plan, as well as a one-off additional benefit from the low and middle income tax offset (LMITO). This delivers an additional $17.8 billion in tax relief over the forward estimates on top of the tax relief already legislated and incorporated in the forward estimates and medium term tax receipt forecasts.

Fringe benefits tax

Since the 2019-20 MYEFO, fringe benefits tax receipts have been revised down $0.4 billion in 2020-21 and $2.0 billion over the four years to 2023-24, reflecting lower compensation of employees. Fringe benefits tax receipts are forecast to fall by 1.3 per cent in 2020-21 and grow by 2.1 per cent on average over the four years to 2023-24.

Company tax

Since the 2019-20 MYEFO, company tax receipts are expected to be $12.2 billion lower in 2020-21 and $93.2 billion lower over the four years to 2023-24. Company tax receipts are forecast to fall by 0.3 per cent in 2020-21 and grow by 2.2 per cent on average over the four years to 2023-24.

Compared with the 2019-20 MYEFO, parameter and other variations account for $7.6 billion of the downgrade in the forecast for company tax receipts in 2020-21 and $61.3 billion of the downgrade over the four years to 2023-24.

Excluding new policy, company tax is forecast to grow in 2020-21, partly reflecting improved mining profits associated with the continued period of elevated iron ore prices relative to the 2019-20 MYEFO. Company tax is then forecast to fall in 2021-22, reflecting the assumed decline in the iron ore price over 2020-21 and a fall in total corporate profits in 2021-22.

New tax policy is expected to reduce company tax receipts by $4.6 billion in 2020-21 and $31.9 billion over the four years to 2023-24. Taken together, the Government's measures

JobMaker Plan – temporary full expensing to support investment and jobs and *JobMaker Plan – temporary loss carry-back to support cash flow* are expected to reduce total tax receipts by $31.6 billion over the four years to 2023-24, but $7.1 billion over the eleven years to 2030-31, as a portion of the cost is recouped due to lower future deductions.

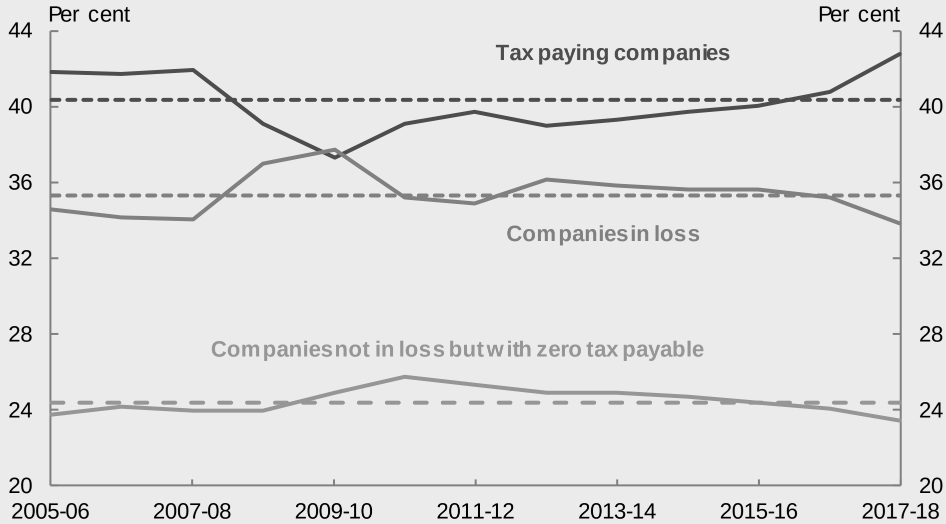
There is considerable uncertainty around the forecasts for company tax receipts. This is partly due to substantial uncertainty around the economic forecasts, as well as uncertainty around the extent to which companies will use losses incurred during the COVID-19 pandemic to offset future profits. Further information on company tax losses is available in Box 2, the 2020-21 Budget assumptions for commodity prices are outlined in Budget Statement 2, and details on the impact of changes in economic assumptions on tax receipts are discussed in Budget Statement 8.

Box 2: Companies in tax loss

Where a company has available deductions that exceed its income, it generally incurs a tax loss and pays no tax for that year. The ability to carry-forward losses to use against future profits is a feature of the company tax system that affects the value and timing of company tax collections. This provides an important shock-absorber for the economy during a downturn.

The transmission of a shock through company profits and tax receipts can vary substantially with the nature and scale of its impact. As an example, in the wake of the global financial crisis, the proportion of companies with a tax loss in the year increased from 34 to 38 per cent between 2007-08 and 2009-10. Indeed, 2009-10 was the only year over the past 15 years where more companies were in a tax loss position than a tax payable position. By 2010-11 the proportion of companies in tax loss had returned to its average since 2004-05 (denoted by a dashed line), while the proportion of tax paying companies remained below its average until 2016-17.

Chart A: Proportion of companies in loss and paying tax in each year (dashed lines are averages)



Source: Treasury estimates; unpublished tax return data.

The impact of a sharp period of losses is felt for some time as they are used over a period of years. The period after the global financial crisis saw an increase in the proportion of companies that were not in loss but paid no tax (for example, because the utilisation of losses fully offset any taxable income). This proportion slowly reduced over time, returning to pre-crisis levels around 2016-17.

In addition to the utilisation of losses, companies returning to profit will generally not pay tax until finalising their annual tax return, from around six months after the end of an income year (for more, see *2017-18 Budget, Budget Statement 5, Budget Paper No. 1,* Box 2: Company tax timing).

Superannuation fund taxes

Since the 2019-20 MYEFO, superannuation fund tax receipts have been revised down $5.0 billion in 2020-21 and $13.5 billion across the four years to 2023-24. Despite the substantial downward revision, tax from superannuation funds is expected to grow strongly, by 31.0 per cent in 2020-21 and by 21.1 per cent on average over the four years to 2023-24, reflecting expectations for a recovery in taxable earnings.

Excluding new policy, superannuation fund taxes are expected to be $4.5 billion lower in 2020-21 and $11.3 billion lower across the four years to 2023-24 compared with the 2019-20 MYEFO. The downward revision reflects weaker labour market expectations, which weigh on contributions, and lower asset prices which weigh on capital gains.

The impact of new policy largely reflects the Government's measure *COVID-19 Response Package — temporary early access to superannuation*.

Petroleum resource rent tax (PRRT)

Since the 2019-20 MYEFO, PRRT receipts have been revised down $0.3 billion in 2020-21 and $1.0 billion over the four years to 2023-24, consistent with lower oil prices. PRRT receipts are forecast to fall by 14.4 per cent in 2020-21 and by 3.8 per cent on average over the four years to 2023-24. These revisions are unrelated to the measures announced in the Government's response to the 2017 Petroleum Resource Rent Tax Review.

Goods and services tax (GST)

Since the 2019-20 MYEFO, GST receipts have been revised down $7.8 billion in 2020-21 and $21.2 billion across the four years to 2023-24. Receipts from GST are forecast to decline by 0.5 per cent in 2020-21 and grow by 5.3 per cent on average over the four years to 2023-24.

Falls in GST receipts reflect record falls in consumption of services, with the components of discretionary consumption that are subject to GST particularly affected. Consumption that is subject to GST is expected to fall in 2020-21 due to ongoing health and travel restrictions, before rebounding from 2021-22.

Excise and customs duty

Since the 2019-20 MYEFO, total excise and customs duty receipts have been revised down $2.3 billion in 2020-21 and $14.9 billion over the four years to 2023-24. Excise and customs duties are forecast to fall by 3.4 per cent in 2020-21 and grow by 0.7 per cent on average over the four years to 2023-24.

Public health restrictions have had a significant impact on demand for fuel, which will continue to weigh on excise collections in 2020-21. The downward revisions across the remainder of the forward estimates primarily reflect a weaker outlook for the excise indexation factors, including CPI and average weekly ordinary time earnings, resulting in lower excise rates compared with the 2019-20 MYEFO.

The 2020-21 Budget estimates continue to include provisions for a number of free trade agreements (FTAs) which have not been finalised and which impact the customs heads of revenue:

- Australia-India Comprehensive Economic Cooperation Agreement
- Regional Comprehensive Economic Partnership
- Australia-European Union Free Trade Agreement
- Australia-United Kingdom Free Trade Agreement.

A number of other FTAs are currently under negotiation, but are not expected to have any material impact on revenue over the forward estimates. A full list of FTAs currently under negotiation is available on the Department of Foreign Affairs and Trade website.

Other sales taxes

Since the 2019-20 MYEFO, luxury car tax (LCT) receipts have been revised down $0.1 billion in 2020-21 and $0.7 billion over the four years to 2023-24. LCT receipts are forecast to decline by 5.3 per cent in 2020-21, and grow by 0.4 per cent on average over the four years to 2023-24. This is consistent with a decline in the sales of vehicles subject to LCT.

Since the 2019-20 MYEFO, wine equalisation tax (WET) receipts have been revised down around $0.1 billion in 2020-21, and $0.7 billion over the four years to 2023-24. WET receipts are forecast to grow by 8.4 per cent in 2020-21, and grow by 2.5 per cent on average over the four years to 2023-24. The downward revisions largely reflect a weaker outlook for price growth.

Other taxes

Other taxes encompass a range of sources of revenue, including the major bank levy and agricultural levies. Those particularly impacted by the travel restrictions implemented in response to the COVID-19 pandemic include visa application charges and passenger movement charge.

Since the 2019-20 MYEFO, other taxes are around $2.6 billion lower in 2020-21, and $6.3 billion lower over the four years to 2023-24. Other taxes are forecast to fall by 26.5 per cent in 2020-21 and grow by 1.1 per cent on average over the four years to 2023-24.

Excluding new policy, other taxes are around $2.5 billion lower in 2020-21 and $5.6 billion lower over the four years to 2023-24.

Non-taxation receipts

Parameter and other variations are expected to increase non-tax receipts by $0.6 billion in 2020-21, but to reduce non-taxation receipts over the four years to 2023-24. Since the 2019-20 MYEFO, expected Future Fund receipts have been revised down $7.9 billion over the four years to 2023-24 and petroleum royalties receipts by $1.4 billion over the four years to 2023-24. These decreases are partially offset by higher than expected dividends from the Reserve Bank of Australia.

Policy decisions since the 2019-20 MYEFO are expected to increase non-tax receipts by $1.7 billion in 2020-21, and by $12.4 billion over the four years to 2023-24. Significant measures include:

- Implementing a revised and improved approach to the administration of Pharmaceutical Benefits Scheme rebate receipts associated with medicines that have Special Pricing Arrangements. These payment administration arrangements will increase non-tax receipts by $10.5 billion over four years 2023-24, offset by a $10.5 billion increase in payments.

Table 5: Reconciliation of 2020-21 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	229,300	210,800	-18,500	-8.1
Gross other individuals	50,900	44,000	-6,900	-13.6
less: Refunds	38,400	37,400	-1,000	-2.6
Total individuals and other withholding tax	241,800	217,400	-24,400	-10.1
Fringe benefits tax	4,150	3,800	-350	-8.4
Company tax	96,700	84,500	-12,200	-12.6
Superannuation fund taxes	13,210	8,210	-5,000	-37.9
Petroleum resource rent tax	1,150	900	-250	-21.7
Income taxation receipts	**357,010**	**314,810**	**-42,200**	**-11.8**
Goods and services tax	67,734	59,981	-7,753	-11.4
Wine equalisation tax	1,130	1,040	-90	-8.0
Luxury car tax	680	540	-140	-20.6
Excise and customs duty				
Petrol	6,250	5,550	-700	-11.2
Diesel	12,620	11,930	-690	-5.5
Other fuel products	2,180	1,690	-490	-22.5
Tobacco	15,690	15,290	-400	-2.5
Beer	2,570	2,470	-100	-3.9
Spirits	2,580	2,670	90	3.5
Other alcoholic beverages(a)	1,050	1,050	0	0.0
Other customs duty				
Textiles, clothing and footwear	200	170	-30	-15.0
Passenger motor vehicles	330	310	-20	-6.1
Other imports	1,050	1,050	0	0.0
less: Refunds and drawbacks	500	500	0	0.0
Total excise and customs duty	44,020	41,680	-2,340	-5.3
Major bank levy	1,650	1,650	0	0.0
Agricultural levies	539	481	-58	-10.8
Other taxes	7,034	4,461	-2,573	-36.6
Indirect taxation receipts	**122,787**	**109,833**	**-12,954**	**-10.6**
Taxation receipts	**479,797**	**424,643**	**-55,154**	**-11.5**
Sales of goods and services	16,526	16,538	12	0.1
Interest received	6,060	4,133	-1,927	-31.8
Dividends	5,777	6,837	1,061	18.4
Other non-taxation receipts	8,438	11,613	3,175	37.6
Non-taxation receipts	**36,801**	**39,121**	**2,320**	**6.3**
Total receipts	**516,598**	**463,764**	**-52,834**	**-10.2**
Memorandum:				
Total excise	*24,720*	*22,820*	*-1,900*	*-7.7*
Total customs duty	*19,300*	*18,860*	*-440*	*-2.3*
Capital gains tax(b)	*18,400*	*13,100*	*-5,300*	*-28.8*

(a) ‘Other alcoholic beverages’ are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) ‘Capital gains tax’ is part of gross other individuals, company tax and superannuation fund taxes.

Table 6: Reconciliation of 2021-22 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	241,900	209,000	-32,900	-13.6
Gross other individuals	54,900	41,700	-13,200	-24.0
less: Refunds	40,100	42,700	2,600	6.5
Total individuals and other withholding tax	256,700	208,000	-48,700	-19.0
Fringe benefits tax	4,330	3,780	-550	-12.7
Company tax	98,600	71,000	-27,600	-28.0
Superannuation fund taxes	14,660	12,810	-1,850	-12.6
Petroleum resource rent tax	1,150	900	-250	-21.7
Income taxation receipts	**375,440**	**296,490**	**-78,950**	**-21.0**
Goods and services tax	70,970	65,602	-5,369	-7.6
Wine equalisation tax	1,170	1,000	-170	-14.5
Luxury car tax	710	540	-170	-23.9
Excise and customs duty				
Petrol	6,500	5,850	-650	-10.0
Diesel	13,270	12,440	-830	-6.3
Other fuel products	2,250	1,860	-390	-17.3
Tobacco	16,430	15,150	-1,280	-7.8
Beer	2,650	2,380	-270	-10.2
Spirits	2,660	2,620	-40	-1.5
Other alcoholic beverages(a)	1,090	1,000	-90	-8.3
Other customs duty				
Textiles, clothing and footwear	200	190	-10	-5.0
Passenger motor vehicles	160	340	180	112.5
Other imports	920	1,120	200	21.7
less: Refunds and drawbacks	500	500	0	0.0
Total excise and customs duty	45,630	42,450	-3,180	-7.0
Major bank levy	1,700	1,700	0	0.0
Agricultural levies	557	496	-61	-11.0
Other taxes	7,250	5,521	-1,729	-23.8
Indirect taxation receipts	**127,987**	**117,309**	**-10,678**	**-8.3**
Taxation receipts	**503,427**	**413,799**	**-89,628**	**-17.8**
Sales of goods and services	17,763	17,418	-345	-1.9
Interest received	6,376	4,202	-2,174	-34.1
Dividends	5,430	6,687	1,257	23.1
Other non-taxation receipts	6,249	9,812	3,563	57.0
Non-taxation receipts	**35,818**	**38,119**	**2,301**	**6.4**
Total receipts	**539,245**	**451,918**	**-87,327**	**-16.2**
Memorandum:				
Total excise	*25,820*	*23,610*	*-2,210*	*-8.6*
Total customs duty	*19,810*	*18,840*	*-970*	*-4.9*
Capital gains tax(b)	*19,200*	*12,500*	*-6,700*	*-34.9*

(a) ‘Other alcoholic beverages’ are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(b) ‘Capital gains tax’ is part of gross other individuals, company tax and superannuation fund taxes.

Table 7: Australian Government general government (cash) receipts

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Individuals and other withholding taxes					
Gross income tax withholding	214,426	210,800	209,000	218,500	230,800
Gross other individuals	43,713	44,000	41,700	46,700	51,000
less: Refunds	36,219	37,400	42,700	31,500	34,500
Total individuals and other withholding tax	221,920	217,400	208,000	233,700	247,300
Fringe benefits tax	3,850	3,800	3,780	3,950	4,190
Company tax	84,781	84,500	71,000	67,200	92,500
Superannuation fund taxes	6,267	8,210	12,810	13,460	13,460
Petroleum resource rent tax(a)	1,052	900	900	900	900
Income taxation receipts	**317,870**	**314,810**	**296,490**	**319,210**	**358,350**
Goods and services tax	60,263	59,981	65,602	70,181	73,971
Wine equalisation tax	959	1,040	1,000	1,030	1,060
Luxury car tax	570	540	540	560	580
Excise and customs duty					
Petrol	5,734	5,550	5,850	6,200	6,500
Diesel	12,046	11,930	12,440	12,940	13,540
Other fuel products	1,923	1,690	1,860	1,940	2,010
Tobacco	16,270	15,290	15,150	15,160	15,340
Beer	2,455	2,470	2,380	2,460	2,530
Spirits	2,648	2,670	2,620	2,690	2,770
Other alcoholic beverages(b)	1,059	1,050	1,000	1,030	1,060
Other customs duty					
Textiles, clothing and footwear	169	170	190	160	160
Passenger motor vehicles	369	310	340	100	80
Other imports	1,142	1,050	1,120	830	820
less: Refunds and drawbacks	669	500	500	500	500
Total excise and customs duty	43,147	41,680	42,450	43,010	44,310
Major bank levy	1,612	1,650	1,700	1,750	1,800
Agricultural levies	469	481	496	516	528
Other taxes	6,885	4,461	5,521	6,656	7,046
Indirect taxation receipts	**113,905**	**109,833**	**117,309**	**123,702**	**129,295**
Taxation receipts	**431,775**	**424,643**	**413,799**	**442,912**	**487,645**
Sales of goods and services	15,490	16,538	17,418	17,945	19,148
Interest received	3,244	4,133	4,202	4,221	4,475
Dividends	7,007	6,837	6,687	7,733	5,123
Other non-taxation receipts	11,883	11,613	9,812	9,837	9,973
Non-taxation receipts	**37,623**	**39,121**	**38,119**	**39,735**	**38,718**
Total receipts	**469,398**	**463,764**	**451,918**	**482,647**	**526,363**
Memorandum:					
Total excise	*23,352*	*22,820*	*23,610*	*24,650*	*25,730*
Total customs duty	*19,795*	*18,860*	*18,840*	*18,360*	*18,580*
Capital gains tax(c)	*14,900*	*13,100*	*12,500*	*12,800*	*13,600*

(a) This item includes an amount of MRRT receipts in 2019-20 which has not been separately disclosed owing to taxpayer confidentiality.

(b) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(c) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes. The 2019-20 reported figure is an estimate.

Variations in revenue estimates

The revenue estimates are the accrual accounting equivalent of the cash-based receipts estimates. Changes in revenue are generally driven by the same factors as receipts.

Revenue amounts are usually higher than the cash equivalents because the amounts are generally recognised when they are owed rather than when they are paid. The differences between the accrual and cash amounts therefore generally reflect payment timing differences. Table 8 provides a reconciliation of the 2020-21 Budget's revenue estimates with those at the 2019-20 MYEFO.

In 2019-20, the difference between revenue and receipts was larger than expected at the 2019-20 MYEFO. In part, this reflected administrative support offered to households and businesses, which allowed some taxpayers to defer payment of tax obligations into 2020-21 (see 2019-20 Final Budget Outcome, Part 1, Revenue). The majority of these obligations have already been lodged and paid (Box 1) and relative to the 2019-20 MYEFO there is no significant increase in the difference between receipts and revenue over the four years to 2023-24.

Table 8: Reconciliation of Australian Government general government revenue estimates from the 2019-20 MYEFO

	Estimates				
	2020-21	2021-22	2022-23	2023-24	Total
	$m	$m	$m	$m	$m
Revenue at 2019-20 MYEFO	**527,267**	**551,662**	**567,195**	*	*
Changes from 2019-20 MYEFO to 2020-21 Budget					
Effect of policy decisions(a)	-12,301	-32,813	-10,567	11,730	-43,951
Effect of parameter and other variations	-42,524	-54,777	-65,228	*	*
Total variations	**-54,826**	**-87,590**	**-75,795**	*	*
Revenue at 2020-21 Budget	**472,442**	**464,072**	**491,400**	**538,100**	**1,966,013**

* Data is not available.
(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

Since the 2019-20 MYEFO, total revenue has been revised down by around $54.8 billion in 2020-21 and by $87.6 billion in 2021-22.

The changes in the individual heads of revenue accrual estimates relative to the 2019-20 MYEFO are shown in Tables 9 and 10, for 2020-21 and 2021-22 respectively. For the five year accrual table, the accrual equivalent of Table 7, see *Budget Statement 10: Australian Government Budget Financial Statements*, Note 3.

Additional revenue and receipts historical tables are available online and can be accessed at www.budget.gov.au.

Table 9: Reconciliation of 2020-21 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	231,500	212,300	-19,200	-8.3
Gross other individuals	54,600	47,300	-7,300	-13.4
less: Refunds	38,400	37,400	-1,000	-2.6
Total individuals and other withholding tax	247,700	222,200	-25,500	-10.3
Fringe benefits tax	4,250	3,880	-370	-8.7
Company tax	97,700	86,200	-11,500	-11.8
Superannuation fund taxes	13,210	8,180	-5,030	-38.1
Petroleum resource rent tax	1,160	870	-290	-25.0
Income taxation revenue	**364,020**	**321,330**	**-42,690**	**-11.7**
Goods and services tax	69,790	62,970	-6,820	-9.8
Wine equalisation tax	1,150	1,060	-90	-7.8
Luxury car tax	680	540	-140	-20.6
Excise and customs duty				
Petrol	6,250	5,550	-700	-11.2
Diesel	12,630	11,880	-750	-5.9
Other fuel products	2,180	1,690	-490	-22.5
Tobacco	15,610	15,270	-340	-2.2
Beer	2,570	2,460	-110	-4.3
Spirits	2,580	2,670	90	3.5
Other alcoholic beverages(a)	1,050	1,050	0	0.0
Other customs duty				
Textiles, clothing and footwear	200	170	-30	-15.0
Passenger motor vehicles	330	310	-20	-6.1
Other imports	1,050	1,050	0	0.0
less: Refunds and drawbacks	500	500	0	0.0
Total excise and customs duty	43,950	41,600	-2,350	-5.3
Major bank levy	1,660	1,670	10	0.6
Agricultural levies	540	481	-59	-10.9
Other taxes	8,246	5,262	-2,984	-36.2
Indirect taxation revenue	**126,016**	**113,583**	**-12,433**	**-9.9**
Taxation revenue	**490,036**	**434,913**	**-55,123**	**-11.2**
Sales of goods and services	16,291	15,874	-417	-2.6
Interest	6,240	4,181	-2,058	-33.0
Dividends	5,521	6,419	899	16.3
Other non-taxation revenue	9,180	11,054	1,874	20.4
Non-taxation revenue	**37,231**	**37,529**	**298**	**0.8**
Total revenue	**527,267**	**472,442**	**-54,826**	**-10.4**
Memorandum:				
Total excise	*24,730*	*22,760*	*-1,970*	*-8.0*
Total customs duty	*19,220*	*18,840*	*-380*	*-2.0*
Capital gains tax(b)	*18,400*	*13,100*	*-5,300*	*-28.8*

(a) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Table 10: Reconciliation of 2021-22 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	244,200	211,400	-32,800	-13.4
Gross other individuals	58,800	44,900	-13,900	-23.6
less: Refunds	40,100	42,700	2,600	6.5
Total individuals and other withholding tax	262,900	213,600	-49,300	-18.8
Fringe benefits tax	4,430	3,860	-570	-12.9
Company tax	99,700	73,000	-26,700	-26.8
Superannuation fund taxes	14,660	12,770	-1,890	-12.9
Petroleum resource rent tax	1,160	900	-260	-22.4
Income taxation revenue	**382,850**	**304,130**	**-78,720**	**-20.6**
Goods and services tax	73,240	67,720	-5,520	-7.5
Wine equalisation tax	1,190	1,020	-170	-14.3
Luxury car tax	710	540	-170	-23.9
Excise and customs duty				
Petrol	6,500	5,850	-650	-10.0
Diesel	13,280	12,440	-840	-6.3
Other fuel products	2,250	1,870	-380	-16.9
Tobacco	16,430	15,150	-1,280	-7.8
Beer	2,650	2,390	-260	-9.8
Spirits	2,660	2,620	-40	-1.5
Other alcoholic beverages(a)	1,090	1,000	-90	-8.3
Other customs duty				
Textiles, clothing and footwear	200	190	-10	-5.0
Passenger motor vehicles	160	340	180	112.5
Other imports	920	1,120	200	21.7
less: Refunds and drawbacks	500	500	0	0.0
Total excise and customs duty	45,640	42,470	-3,170	-6.9
Major bank levy	1,710	1,720	10	0.6
Agricultural levies	557	496	-61	-11.0
Other taxes	8,495	6,702	-1,793	-21.1
Indirect taxation revenue	**131,542**	**120,667**	**-10,875**	**-8.3**
Taxation revenue	**514,392**	**424,797**	**-89,595**	**-17.4**
Sales of goods and services	17,512	17,161	-351	-2.0
Interest	6,557	4,008	-2,549	-38.9
Dividends	5,697	7,454	1,756	30.8
Other non-taxation revenue	7,503	10,651	3,148	42.0
Non-taxation revenue	**37,270**	**39,274**	**2,005**	**5.4**
Total revenue	**551,662**	**464,072**	**-87,590**	**-15.9**
Memorandum:				
Total excise	*25,830*	*23,630*	*-2,200*	*-8.5*
Total customs duty	*19,810*	*18,840*	*-970*	*-4.9*
Capital gains tax(b)	*19,200*	*12,500*	*-6,700*	*-34.9*

(a) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Appendix A: Tax Benchmarks and Variations Statement

This appendix contains an overview of Australian Government tax benchmark variations, as required by Section 12 of the *Charter of Budget Honesty Act 1998* (CBHA).

The information in Table A1 is derived from the 2019 Tax Benchmarks and Variations Statement, based on economic parameters as at the publication of the 2019-20 MYEFO. It does not include the impact of policy decisions, or changes in the economic outlook since then on benchmark variations. Further information on benchmarks and variations from them will be available in future Tax Benchmark and Variations reports. Tax benchmarks represent a standard taxation treatment that applies to similar taxpayers or types of activities. Policy approaches can apply a taxation treatment different from a standard approach and the resulting variations can give rise to positive or negative variations. The choice of benchmark unavoidably involves judgment and may therefore be contentious in some cases.

Benchmark variation estimates should be interpreted with caution as they do not indicate the revenue gain or loss to the Budget if they were to be abolished by a change of policy. In addition, the characterisation of a provision of the tax law that gives rise to a benchmark variation does not indicate a view on how an activity or class of taxpayer ought to be taxed.

Consistent with most OECD countries, estimates of a benchmark variation reflect the extent to which a variation is utilised, similar to Budget estimates of outlays on demand-driven expenditure programs. This is known as the 'revenue forgone' approach which, in practice, involves estimating the difference in revenue between the actual and benchmark tax treatments but, importantly, assuming taxpayer behaviour is the same in each circumstance. Revenue forgone estimates therefore do not indicate the revenue gain to the Budget if specific benchmark variations were abolished through policy change, as there may be significant changes in taxpayer behaviour were the variations removed.

Care needs to be taken when comparing benchmark variations with direct expenditures as they may measure different things. In addition, estimates from different editions of previously released Tax Benchmarks and Variations Statements are generally not comparable, because of changes or modifications to — for example — benchmarks, individual benchmark variations, data used or modelling methodology.

The CBHA also requires the publication of an annual report. The 2019 Tax Benchmarks and Variations Statement was published in January 2020 and provides a detailed description of Australian Government benchmarks and benchmark variations and, where possible, the estimated value, or order of magnitude, of each benchmark variation.

Table A1: Estimates of large measured benchmark variations

Benchmark variations		Estimate $m			
		2020-21	2021-22	2022-23	2023-24
Large positive benchmark variations					
E7	Main residence exemption — discount component	22,500	23,500	24,500	28,000
C4	Concessional taxation of superannuation entity earnings	22,150	22,550	24,000	24,900
C2	Concessional taxation of employer superannuation contributions	21,000	23,250	23,600	25,250
E6	Main residence exemption	19,000	20,000	20,500	23,500
E14	Discount for individuals and trusts	9,950	10,430	11,180	11,580
H26	Food	7,900	8,200	8,400	8,700
H14	Education	5,150	5,400	5,700	6,050
H17	Health — medical and health services	4,800	5,050	5,350	5,650
H2	Financial supplies — input taxed treatment	3,850	4,100	4,350	4,650
B53	Lower company tax rate	3,600	4,200	4,000	4,300
A26	Exemption for National Disability Insurance Scheme amounts	2,790	3,070	3,220	3,340
B2	Local government bodies income tax exemption	2,480	2,710	2,960	3,240
B12	Exemption from interest withholding tax on certain securities	2,450	2,450	2,450	2,450
C6	Deductibility of life and total permanent disability insurance premiums provided inside of superannuation	2,340	2,680	2,920	3,330
C1	Concessional taxation of capital gains for superannuation funds	2,150	2,350	2,450	2,600
D14	Exemption for public benevolent institutions (excluding hospitals)	1,950	2,150	2,250	2,350
A39	Exemption of Family Tax Benefit payments	1,940	2,000	1,970	2,010
A19	Medicare levy exemption for residents with taxable income below the low-income thresholds	1,895	1,895	1,895	1,905
A24	Concessional taxation of non-superannuation termination benefits	1,850	1,800	1,650	1,550
D10	Exemption for public and not-for-profit hospitals and public ambulance services	1,850	1,950	2,000	2,050
A27	Exemption of Child Care Assistance payments	1,730	1,840	1,900	2,025
H5	Child care services	1,730	1,860	1,990	2,140
A17	Exemption of the Private Health Insurance Rebate	1,660	1,730	1,790	1,800
A56	Philanthropy — deduction for gifts to deductible gift recipients	1,495	1,555	1,610	1,620
F6	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,410	1,480	1,520	1,570
H18	Health — residential care, community care and other care services	1,350	1,420	1,500	1,580
B80	Simplified depreciation rules	1,300	-800	-1,000	-900
A38	Exemption of certain income support benefits, pensions or allowances	1,230	1,300	1,310	1,330
C3	Concessional taxation of personal superannuation contributions	1,200	1,400	1,600	1,500
B74	Capital works expenditure deduction	1,190	1,270	1,350	1,420
H6	Water, sewerage and drainage	1,180	1,240	1,300	1,370
B6	Reduced withholding tax under international tax treaties	1,110	1,300	1,510	1,770
Large negative benchmark variations					
F10	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-3,010	-3,140	-3,240	-3,340
F21	Customs duty	-1,100	-800	-600	-630

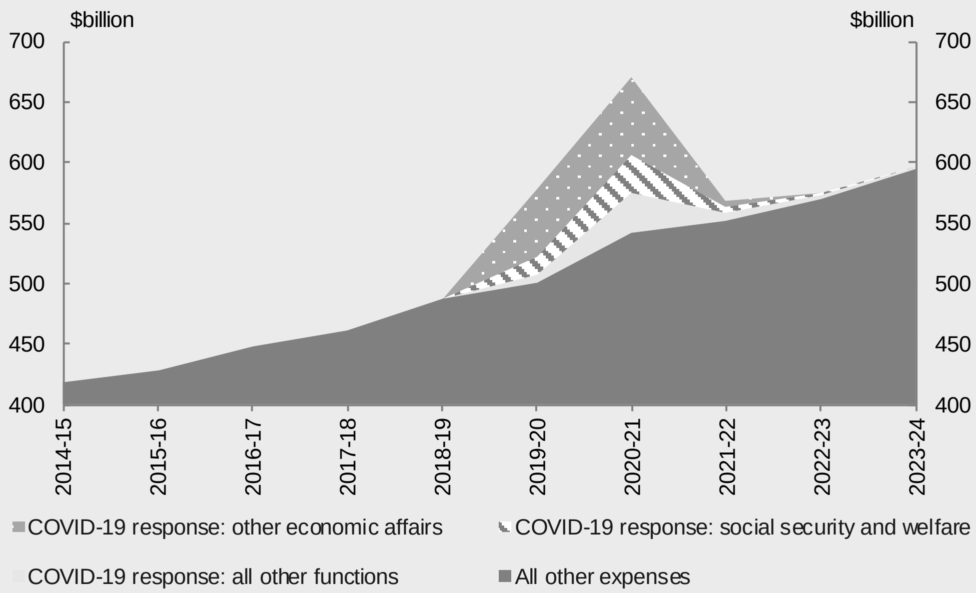
Statement 6: Expenses and Net Capital Investment

Statement 6 presents estimates of the Australian Government general government sector expenses and net capital investment, allocated according to the various functions of government, on a fiscal balance basis. These functions are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics (GFS) reporting framework.

Statement 6 focuses on short to medium term trends in estimated expenses and their underlying drivers. Consistent with this emphasis, much of Statement 6 explains year on year changes across the forward estimates period.

The Government's decisive action to support businesses and households through the COVID-19 pandemic has had a material impact on functional expenses. The unprecedented levels of fiscal support have resulted in significant increases in expenses in 2019-20 and 2020-21, which reflecting the temporary nature of this additional expenditure are then followed by a relative decrease in 2021-22 (see Chart 1 below). For some functions the significant increase in expenditure in the near-term results in negative real growth over the forward estimates.

Chart 1: Impact of COVID-19 response on Australian Government expenditure



The main impacts of the Government's fiscal support on functional expenses are:

- Other Economic Affairs — over $120 billion in new measures over 2019-20 and 2020-21, mainly reflecting the JobKeeper Payment and measures to assist business

- Social Security and Welfare — over $46 billion in new expenditure over 2019-20 and 2020-21, mainly reflecting the Coronavirus Supplement, economic support payments to households and increased expenditure on the JobSeeker Payment
- All other functions — $40 billion in new measures over 2019-20 and 2020-21, mainly reflecting support for apprentices, trainees, hospitals and the aviation sector, as well as infrastructure stimulus.

Overall, the underlying trends of functional expenditure are:

- in 2020-21 the social security and welfare, health, defence and education functions account for nearly two thirds of total expenses, with social security and welfare accounting for slightly more than one third of total expenses
- in real terms, the strongest growth across the budget and forward estimates is expected to occur in the transport and communication, defence and other purposes functions
- net capital investment from 2020-21 to 2023-24 largely reflects continued investment in defence capital projects.

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Statement 6: Expenses and Net Capital Investment

Overview

Australian Government general government sector (GGS) accrual expenses are expected to increase by 15.3 per cent in real terms in 2020-21, and to decrease by 16.1 per cent in real terms in 2021-22. The significant changes between 2020-21 and 2021-22 are primarily driven by the Government's temporary and targeted response to the impact of the COVID-19 pandemic on Australia's health system, the economy, and employment levels. Following these one-off movements, total expenses are estimated to start gradually increasing from 2023-24. As a percentage of GDP, total expenses are expected to reach 34.4 per cent in 2020-21 and then decline to 28.2 per cent in 2021-22, reflecting both the Government's economic response and an expected decrease in GDP due to the economic impact of the COVID-19 pandemic. From 2021-22, GDP is expected to start increasing again and expenses are estimated to start gradually decreasing to reach 27.1 per cent of GDP in 2023-24.

Table 1.1: Estimates of general government sector expenses

	MYEFO	Actual	Estimates			
	2019-20	2019-20	2020-21	2021-22	2022-23	2023-24
Total expenses ($b)	**503.2**	**578.5**	**670.3**	**567.5**	**574.9**	**596.6**
Real growth on previous year (%)(a)	1.9	17.8	15.3	-16.1	-0.4	1.9
Per cent of GDP	25.0	29.2	34.4	28.2	27.4	27.1

(a) Real growth is calculated using the Consumer Price Index.

As set out in *Statement 3: Fiscal Strategy and Outlook* of Budget Paper No. 1, the Government also reports spending on an underlying cash basis. In cash terms, Government spending is estimated to grow by 22.6 per cent in real terms in 2020-21 and then to decline by 17.5 per cent in real terms in 2021-22, reflecting the temporary nature of the Government's significant response to the COVID-19 pandemic. Growth in payments is then estimated to start gradually increasing from 2023-24. As a percentage of GDP, total payments are expected to reach 34.8 per cent in 2020-21 and then to gradually decrease to 26.9 per cent in 2023-24.

Table 1.2: Estimates of general government sector payments

	MYEFO	Actual	Estimates			
	2019-20	2019-20	2020-21	2021-22	2022-23	2023-24
Total payments ($b)	**492.0**	**549.6**	**677.4**	**563.9**	**570.5**	**593.3**
Real growth on previous year (%)(a)	1.0	13.4	22.6	-17.5	-0.6	2.1
Per cent of GDP	24.5	27.7	34.8	28.0	27.2	26.9

(a) Real growth is calculated using the Consumer Price Index.

Table 2 provides a reconciliation of expense estimates between the 2019-20 Mid-Year Economic and Fiscal Outlook (MYEFO) and the 2020-21 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

	Estimates			
	2020-21	2021-22	2022-23	Total
	$m	$m	$m	$m
2019-20 MYEFO expenses	**515,123**	**533,833**	**555,589**	**1,604,545**
Changes from 2019-20 MYEFO to 2020-21 Budget				
Effect of policy decisions(a)	127,289	20,883	11,435	159,606
Effect of economic parameter variations				
Total economic parameter variations	12,178	-2,625	-7,630	1,922
Unemployment benefits	*20,831*	*7,035*	*3,595*	*31,461*
Prices and wages	*-1,021*	*-4,189*	*-6,501*	*-11,711*
Interest and exchange rates	*26*	*-154*	*-389*	*-517*
GST payments to the States	*-7,659*	*-5,318*	*-4,335*	*-17,311*
Public debt interest	986	2,504	3,640	7,130
Program specific parameter variations	-3,017	7,464	7,511	11,959
Other variations	17,771	5,432	4,362	27,565
Total variations	**155,207**	**33,658**	**19,318**	**208,183**
2020-21 Budget expenses	**670,330**	**567,491**	**574,907**	**1,812,728**

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

The combined impact of policy decisions and variations to program estimates has increased expenses by $208.2 billion over the three years from 2020-21 to 2022-23 compared to the 2019-20 MYEFO. Of this, $159.6 billion largely reflects the impact of policy decisions including measures responding to the impact of the COVID-19 pandemic. In the same period, unemployment benefits variations, public debt interest, program specific parameter and other variations have increased expenses by $78.1 billion, while other economic parameter variations and GST payments to states and territories have decreased expenses by $29.5 billion, compared to the 2019-20 MYEFO.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2019-20 to 2023-24.

Table 3: Estimates of expenses by function

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
General public services	29,472	31,764	24,412	23,840	24,327
Defence	33,187	34,415	35,382	37,120	38,996
Public order and safety	6,388	6,212	5,802	5,597	5,514
Education	39,885	41,742	41,512	42,095	43,349
Health	87,023	93,771	90,313	93,819	97,532
Social security and welfare	196,119	227,529	201,730	201,562	205,480
Housing and community amenities	5,332	7,086	5,713	5,172	4,794
Recreation and culture	3,971	4,364	4,000	3,836	3,900
Fuel and energy	7,892	8,771	8,603	9,021	9,511
Agriculture, forestry and fishing	2,584	3,913	3,880	3,182	2,871
Mining, manufacturing and construction	2,819	3,306	3,696	4,026	4,112
Transport and communication	7,321	13,060	14,453	15,054	15,158
Other economic affairs	65,494	97,948	14,281	10,311	9,795
Other purposes	91,062	96,449	113,711	120,271	131,278
Total expenses	**578,549**	**670,330**	**567,491**	**574,907**	**596,619**

Major expense trends between 2019-20 and 2020-21, and from 2020-21 over the forward years include movements in the following functions:

- **General public services** — the decrease in expenses from 2020-21 to 2023-24 largely reflects the use of different discount rates applied to superannuation expenses

- **Defence** — the increase in expenses from 2020-21 to 2023-24 reflects the increased investment required to deliver the plans set out in the *2016 Defence White Paper* and the *2020 Force Structure Plan*

- **Education** — the increase in expenses from 2020-21 to 2023-24 largely reflects the school funding arrangements implemented under the *Quality Schools* package and increased funding for non-government schools in the Government's response to the National School Resourcing Board's *Review of the Socio-Economic Status Score Methodology*

- **Health** — the increase in expenses from 2019-20 to 2020-21 is primarily driven by the COVID-19 Public Health Response. Increases in expenses from 2020-21 to 2023-24 are largely driven by growth in the **assistance to the States for public hospitals** and **medical services and benefits** sub-functions. The increase in expenses for public hospitals reflects higher growth in activity, and the growth in expenditure for medical services reflects the growth in use of high value items

- **Social security and welfare** — the increase in expenses from 2019-20 and the decrease in expenses from 2020-21 to 2023-24 largely reflects an increase in expenditure in 2020-21 due to the temporary nature of the Government's economic response to COVID-19 as well as an anticipated reduction in the number of unemployed individuals through the forward estimates as the economy recovers from the COVID-19 pandemic. The increase in the estimates from 2021-22 reflects the impacts of an ageing population accessing the Age Pension and residential and home care
- **Housing and community amenities** — the increase in expenses from 2019-20 to 2020-21 largely reflects the creation of the time limited HomeBuilder program and several urban and regional development measures. The decrease from 2020-21 to 2023-24 largely reflects the conclusion of the HomeBuilder program and the scheduled completion of urban and regional development projects
- **Transport and communication** — the increase in expenses from 2019-20 to 2023-24 largely reflects new and existing commitments to major infrastructure projects within the road and rail transport sub-functions
- **Other economic affairs** —the increase in expenses from 2019-20 to 2020-21, and the decline in expenses from 2020-21 to 2023-24, largely reflects the temporary nature of the Government's COVID-19 economic support package, including the JobKeeper Payment and Boosting Cash Flow for Employers available to support businesses
- **Other purposes** — the increase in expenses from 2019-20 to 2023-24 largely reflects growing general revenue assistance payments (largely GST) to be made to the states and territories and the conservative bias allowance component of the Contingency Reserve.

Government expenses are strongly influenced by underlying trends in spending in the social security and welfare, health and education functions (see Box 1). Together, these functions account for 54.2 per cent of all government expenses in 2020-21. Further details of spending trends against all functions, including movements in expenses from 2019-20 to 2020-21, are set out under individual function headings.

Box 1: Where does government spending go in 2020-21?

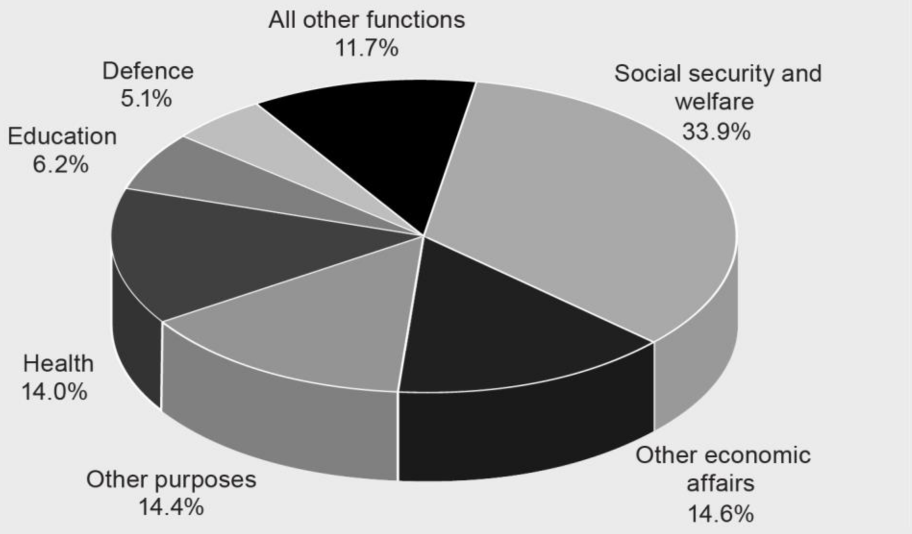
Government spending provides a wide range of services to the community. The most significant component of government spending relates to social security and welfare, with around one third of total expenses providing support to the aged, families with children, people with disabilities, veterans, carers and unemployed people.

Another one seventh of government expenses occur in health, including Medicare Benefits Schedule (MBS) and Pharmaceutical Benefits Scheme (PBS) payments. A significant amount is also transferred to the states and territories in general revenue assistance under the other purposes function.

For the first time, the other economic affairs function is the second largest component of government spending in 2020-21. The largest driver of this significant increase is the JobKeeper Payment, which is a central component of the Government's response to the COVID-19 pandemic.

The Government also provides significant investment under the education function, supporting government and non-government schools, as well as higher education and vocational education and training. The remainder is spent on defence and a range of other public services.

Chart 2: Expenses by function in 2020-21



The estimates presented in the chart above are explained in greater detail under each individual function in the following pages.

Program expenses

Table 3.1 reports the top 20 expense programs in the 2020-21 financial year. These programs represent more than two thirds of total expenses in that year. A significant proportion of the top 20 expense programs provide financial assistance or services to the aged, families, people with a disability, students, carers and the unemployed.

Table 3.1: Top 20 programs by expenses in 2020-21

		Actual	Estimates			
		2019-20	2020-21	2021-22	2022-23	2023-24
Program(a)	**Function**	$m	$m	$m	$m	$m
Economic Response to the Coronavirus (b)	Other Economic Affairs	55,179	82,477	2,900	250	0
Revenue assistance to the States and Territories	Other purposes	62,027	61,926	68,034	72,807	76,721
Income Support for Seniors	SSW	50,104	53,549	51,425	53,089	54,977
Job Seeker Income Support	SSW	20,128	34,095	17,302	14,095	13,023
Medical benefits	Health	24,881	28,248	28,146	29,505	31,041
Assistance to the States for public hospitals	Health	22,560	23,607	25,192	26,651	28,241
National Disability Insurance Scheme	SSW	18,676	23,431	25,448	25,615	25,706
Aged care services	SSW	19,757	21,849	23,032	24,500	25,851
Family Tax Benefit	SSW	18,333	19,405	18,208	18,012	18,102
Income Support for People with Disability	SSW	17,781	18,506	17,328	17,329	17,940
Pharmaceutical benefits, services and supply	Health	13,432	13,716	13,648	13,986	14,306
Non-government schools national support	Education	13,918	12,844	14,657	15,450	16,132
Income Support for Carers	SSW	9,375	10,102	9,777	10,139	10,625
Defence Force Superannuation Benefits	Defence	9,786	9,894	7,547	7,814	8,235
Government schools national support	Education	8,387	9,067	9,748	10,447	11,027
Child Care Subsidy	SSW	7,921	8,978	9,331	9,843	10,292
Public Sector Superannuation - Benefits (c)	Other purposes; General public services	8,513	8,264	9,108	9,231	9,320
Fuel Tax Credit Scheme	Fuel and energy	7,343	7,838	7,925	8,380	8,947
Army Capabilities	Defence	7,298	7,820	8,253	8,374	8,961
Air Force Capabilities	Defence	6,652	7,553	7,759	8,326	8,766
Sub-total		**402,051**	**463,170**	**374,767**	**383,843**	**398,214**
Other programs		176,498	207,160	192,725	191,064	198,405
Total expenses		**578,549**	**670,330**	**567,491**	**574,907**	**596,619**

(a) The entry for each program includes eliminations for inter-agency transactions within that program.
(b) This program is a combination of JobKeeper Payment, Boosting Cash Flow for Employers and JobMaker Hiring Credit.
(c) This program is a combination of superannuation nominal interest and accrual expenses.

General government sector expenses

General public services

The general public services function includes expenses to support the organisation and operation of government such as those related to: the Parliament, the Governor-General; the conduct of elections; the collection of taxes and management of public funds and debt; assistance to developing countries to reduce poverty and achieve sustainable development, particularly countries in the Pacific region; contributions to international organisations; and foreign affairs. It also includes expenses related to research in areas not otherwise connected with a specific function, and those associated with overall economic and statistical services, as well as government superannuation benefits (excluding nominal interest expenses on unfunded liabilities, which are included under the nominal superannuation interest sub-function in the other purposes function).

Table 4: Summary of expenses — general public services

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Legislative and executive affairs	1,366	1,401	1,659	1,305	1,308
Financial and fiscal affairs	7,302	7,901	7,715	7,371	6,971
Foreign affairs and economic aid	6,270	6,541	5,868	5,954	6,513
General research	2,940	3,452	3,410	3,400	3,524
General services	855	1,190	705	695	720
Government superannuation benefits	10,739	11,279	5,055	5,115	5,290
Total general public services	**29,472**	**31,764**	**24,412**	**23,840**	**24,327**

Total general public services expenses are estimated to increase by 7.2 per cent in real terms from 2019-20 to 2020-21, and decrease by 26.8 per cent in real terms over the period 2020-21 to 2023-24.

Expenses under the **legislative and executive affairs** sub-function partly reflect costs incurred by the Australian Electoral Commission to support federal elections in 2021-22.

Expenses in the **financial and fiscal affairs** sub-function are expected to increase by 7.7 per cent in real terms from 2019-20 to 2020-21, and are forecast to decrease by 15.6 per cent in real terms from 2020-21 to 2023-24. The increase from 2019-20 to 2020-21 and the subsequent decrease from 2020-21 to 2023-24 are largely due to temporary departmental funding increases provided to the Australian Taxation Office, including in relation to the administration of JobKeeper and JobMaker Hiring Credit and the modernisation of business registries.

Table 4.1 provides further details of the major components of foreign affairs and economic aid sub-function expenses.

Table 4.1: Trends in the major components of foreign affairs and economic aid sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Foreign aid(b)	3,987	4,014	3,515	3,616	4,173
Diplomacy(c)	1,151	1,217	1,061	1,059	1,066
Payments to international organisations	384	476	486	494	494
Passport services	224	264	267	269	274
International police assistance	201	202	209	184	174
International agriculture research and development	109	112	102	100	101
Consular services	105	144	116	116	116
Finance and insurance services for Australian exporters and investors	16	8	3	3	0
Other	92	104	110	115	115
Total	**6,270**	**6,541**	**5,868**	**5,954**	**6,513**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) The foreign aid figures reflect aid spending by the Department of Foreign Affairs and Trade in accrual terms. This differs from the international measure of aid reporting, official development assistance (ODA), which is in cash terms. Aid spending by other entities is usually reflected in other sub-functions.
(c) Diplomacy includes Departmental expenditure for the Department of Foreign Affairs and Trade's Operations, Security and IT, overseas property and international climate change engagement.

Total expenses under the **foreign affairs and economic aid** sub-function are expected to increase by 3.8 per cent in real terms from 2019-20 to 2020-21, and are forecast to decrease by 4.8 per cent in real terms from 2020-21 to 2023-24.

Decreases and the later increase in the expenditure profile largely reflects the payment cycles of Australia's contributions under the multi-year funding arrangements for multilateral funds such as the Asian Development Fund and the World Bank's International Development Association. In 2019-20 and 2020-21 there was upfront expenditure on IT and security to secure Australia's overseas consular presence and this upfront investment has resulted in a decrease over the forward estimates in real terms.

Table 4.2 sets out the major components of general research sub-function expenses.

Table 4.2: Trends in the major components of general research sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Research - science services and innovation fund	1,126	1,209	1,164	1,183	1,197
Discovery - research and research training	487	484	488	489	492
Science and technology solutions	328	435	460	444	436
Linkage - cross sector research partnerships	295	327	326	327	329
Supporting science and commercialisation	194	367	332	308	315
Research capacity	187	285	303	318	427
Other	323	345	336	331	327
Total	**2,940**	**3,452**	**3,410**	**3,400**	**3,524**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

The **general research** sub-function incorporates expenses incurred by the Department of Industry, Science, Energy and Resources, the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Nuclear Science and Technology Organisation (ANSTO), the Australian Institute of Marine Science (AIMS), the Department of Education, Skills and Employment, and the Australian Research Council.

Total expenses under this sub-function are expected to increase by 16.8 per cent in real terms from 2019-20 to 2020-21, and decrease by 2.4 per cent in real terms from 2020-21 to 2023-24. The increase to 2020-21 is primarily due to additional funding for CSIRO to address the impacts of COVID-19 on its commercial activities, and to ensure continuation of essential scientific research.

The **general services** sub-function incorporates expenses largely incurred by the Department of Finance, Australian Public Service Commission and Comcare. Total expenses under this sub-function are estimated to increase by 38.4 per cent in real terms from 2019-20 to 2020-21 and decrease by 42.1 per cent in real terms over the period 2020-21 to 2023-24. The increase from 2019-20 to 2020-21, and later decrease from 2020-21 to 2023-24, are largely driven by expected increased insurance claims expenditure in 2020-21.

The fall in expenses from 2020-21 to 2023-24 in the **government superannuation benefits** sub-function primarily reflects the use of different discount rates. In accordance with the accounting standards, superannuation expenses for 2019-20 and 2020-21 were calculated using the long term Government Bond rate at the start of the financial year which best matched each individual scheme's liability duration. For the financial years 2019-20 and 2020-21 the rates were between 1.4 and 1.9 per cent per annum and between 1.0 and 1.7 per cent per annum respectively. Forward years are estimated based on the discount rate recommended by the superannuation scheme actuaries in preparing the latest Long Term Cost Reports (5 per cent).

Defence

The defence function includes expenses incurred by the Department of Defence (Defence) and related agencies. Defence expenses support Australian military operations overseas and the delivery of navy, army, air and intelligence capabilities and strategic policy advice in the defence of Australia and its national interests.

This function records the majority of expenses incurred by the Defence portfolio but does not include the expenses incurred by the Department of Veterans' Affairs, superannuation payments to retired military personnel and housing assistance provided through Defence Housing Australia. These expenses are reported in the social security and welfare, other purposes, and housing and community amenities functions, respectively.

Table 5: Summary of expenses — defence

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Defence	33,187	34,415	35,382	37,120	38,996
Total defence	**33,187**	**34,415**	**35,382**	**37,120**	**38,996**

Total expenses for the **defence** sub-function are estimated to increase by 3.2 per cent in real terms from 2019-20 to 2020-21, and by 8.3 per cent in real terms over the period 2020-21 to 2023-24. The real growth reflects funding required by Defence to continue delivery of the *2016 Defence White Paper* and new or adjusted capability investments outlined in the *2020 Force Structure Plan.*

The Government has provided a further $643.3 million in the 2020-21 Budget to support major Australian Defence Force Operations in the Middle East, the protection of Australia's borders and offshore maritime interests and Operation COVID-19 Assist.

Public order and safety

The public order and safety function includes expenses to support the administration of the federal legal system and the provision of legal services, including legal aid, to the community. Public order and safety expenses also include law enforcement, border protection and intelligence activities, and the protection of Australian Government property.

Table 6: Summary of expenses — public order and safety

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Courts and legal services	1,416	1,488	1,381	1,272	1,275
Other public order and safety	4,973	4,724	4,421	4,325	4,239
Total public order and safety	**6,388**	**6,212**	**5,802**	**5,597**	**5,514**

Total expenses for the public order and safety function are estimated to decrease by 3.2 per cent in real terms from 2019-20 to 2020-21, and decrease by 15.1 per cent in real terms over the period 2020-21 to 2023-24.

Expenses within the **courts and legal services** sub-function are estimated to increase by 4.6 per cent in real terms from 2019-20 to 2020-21, mainly reflecting increased resourcing for the Federal Court, including for an expansion of its jurisdiction to include corporate crime, funding for the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability and continued funding under the National Partnership on Legal Assistance Services. Expenses are expected to decrease by 18.1 per cent in real terms from 2020-21 to 2023-24, reflecting the timing of the finalisation of the Royal Commissions which were largely provided funding from 2019-20 to 2021-22.

The major components of the other public order and safety sub-function expenses are set out in Table 6.1.

Table 6.1: Trends in the major components of the other public order and safety sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Policing and law enforcement	3,438	3,267	3,117	3,008	2,943
Border protection	1,535	1,457	1,304	1,317	1,296
Total	**4,973**	**4,724**	**4,421**	**4,325**	**4,239**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Total expenses within the **other public order and safety** sub-function are expected to decrease by 5.5 per cent in real terms from 2019-20 to 2020-21. There is an expected decrease of 14.2 per cent in real terms from 2020-21 to 2023-24, which mainly reflects the termination of a number of measures that are subject to future Government consideration and additional short-term funding being provided to the Department of

Home Affairs in 2020-21 for Border Enforcement activities. The decrease is partially offset by significant funding increases for the following 2020-21 Budget measures: *Australian Federal Police – additional funding, AUSTRAC Capability Uplift,* and *National Security Agencies – additional funding.*

Education

The education function includes expenses to support the delivery of education services through higher education institutions; vocational education and training providers (including technical and further education institutions); and government (state and territory) and non-government primary and secondary schools.

Table 7: Summary of expenses — education

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Higher education	9,652	11,373	10,570	10,184	10,060
Vocational and other education	1,713	2,229	1,740	1,598	1,615
Schools	22,305	21,912	24,405	25,897	27,158
Non-government schools	*13,918*	*12,844*	*14,657*	*15,450*	*16,132*
Government schools	*8,387*	*9,067*	*9,748*	*10,447*	*11,027*
School education - specific funding	722	723	590	204	206
Student assistance	5,271	5,205	3,920	3,940	4,044
General administration	222	301	286	273	265
Total education	**39,885**	**41,742**	**41,512**	**42,095**	**43,349**

Total education expenses are expected to increase by 4.1 per cent in real terms between 2019-20 and 2020-21. Expenses under the **higher education** sub-function are expected to increase by 17.2 per cent in real terms from 2019-20 to 2020-21, and decrease by 15.4 per cent in real terms between 2020-21 and 2023-24. The increase in expenses in 2020-21 primarily reflects additional funding to maintain universities' research efforts in response to the challenges caused by the COVID-19 pandemic. The subsequent decrease in expenses over the forward estimates reflects the ceasing of COVID-19 support.

Expenses under the **vocational and other education** sub-function are expected to increase by 29.5 per cent in real terms from 2019-20 to 2020-21, and decrease by 30.7 per cent in real terms from 2020-21 to 2023-24. The increase in expenses in 2020-21 primarily reflects the July 2020 Economic and Fiscal Update (July Update) measure *COVID-19 Response Package – JobTrainer Fund – establishment,* which established the $1.0 billion JobTrainer Fund, including a Commonwealth contribution of $500.0 million, to assist job seekers in accessing training to develop new skills in growth sectors of the economy. The subsequent expected decrease in expenses in 2022-23 primarily reflects the conclusion of the Skilling Australians Fund funding agreement on 30 June 2022.

Aggregate schools funding expenses are expected to decrease by 2.3 per cent in real terms between 2019-20 and 2020-21, and increase by 18.5 per cent in real terms from 2020-21 to 2023-24. Expenses in the **schools – non-government schools** sub-function are expected to decrease by 8.2 per cent in real terms between 2019-20 and 2020-21, and increase by 20.1 per cent in real terms from 2020-21 to 2023-24. Expenses under the **schools – government schools** sub-function are expected to increase by 7.6 per cent in real terms between 2019-20 and 2020-21, and by 16.3 per cent in real terms from 2020-21 to 2023-24. The decrease in expenses under the **schools – non-government schools** sub-function in 2020-21 reflects the July Update measure *COVID-19 Response Package –*

support for non-government schools, which enabled non-government schools to bring 2020-21 recurrent funding forward into 2019-20. The increase in expenses for schools funding over the forward years is primarily due to the funding arrangements implemented under the *Quality Schools* package and increased funding for non-government schools in the Government's response to the National School Resourcing Board's *Review of the Socio-Economic Status Score Methodology.*

Expenses under the **school education — specific funding** sub-function are expected to decrease by 0.3 per cent in real terms between 2019-20 and 2020-21, and decrease by 72.7 per cent in real terms from 2020-21 to 2023-24. The decrease in expenses over the forward years primarily reflects the conclusion of the July Update measure *National Partnership Agreement on Universal Access to Early Childhood Education — extension* on 30 June 2022.

Expenses under the **student assistance** sub-function are expected to decrease by 1.8 per cent in real terms from 2019-20 to 2020-21, and decrease by 25.7 per cent in real terms from 2020-21 to 2023-24. The decrease from 2020-21 to 2023-24 largely reflects the cessation of the temporary Coronavirus Supplement in December 2020, partly offset by an increase in expenses under the Higher Education Loan Programme (HELP). Expenses under HELP mainly reflect the estimated cost to the Government of providing concessional loans, which will vary with enrolment numbers and the number and value of HELP loans.

Health

The health function includes expenses relating to medical services that are funded through Medicare; payments to the states and territories to deliver essential health services, including public hospitals; the Pharmaceutical Benefits and Repatriation Pharmaceutical Benefits Schemes; the Private Health Insurance Rebate; Aboriginal and Torres Strait Islander health programs; mental health services; and health workforce initiatives.

Table 8: Summary of expenses — health

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Medical services and benefits	32,668	36,530	36,409	37,833	39,374
Pharmaceutical benefits and services	14,175	14,487	14,445	14,777	15,104
Assistance to the States for public hospitals	22,560	23,607	25,192	26,651	28,241
Hospital services(a)	1,248	1,169	1,163	1,146	1,160
Health services	11,888	13,096	8,806	9,193	9,366
General administration	3,510	3,906	3,332	3,224	3,254
Aboriginal and Torres Strait Islander health	973	975	967	995	1,033
Total health	**87,023**	**93,771**	**90,313**	**93,819**	**97,532**

(a) The hospital services sub-function predominantly reflects Commonwealth funding to the States and Territories for veterans' hospital services.

Expenses for the health function are estimated to increase by 7.2 per cent in real terms from 2019-20 to 2020-21. This is largely driven by growth in the **assistance to the States for public hospitals, medical services and benefits** and **health services** sub-functions due primarily to temporary measures in response to the COVID-19 pandemic. The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, comprises 39.0 per cent of total estimated health expenses for 2020-21. Growth in Medicare expenses is the major driver of growth in this sub-function.

The major components of the medical services and benefits sub-function are set out in Table 8.1.

Table 8.1: Trends in the major components of medical services and benefits sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Medical benefits	24,881	28,248	28,146	29,505	31,041
Private health insurance	6,309	6,624	6,667	6,740	6,828
General medical consultations and services	699	772	732	697	654
Dental services(b)	284	341	345	363	363
Other	496	546	519	529	488
Total	**32,668**	**36,530**	**36,409**	**37,833**	**39,374**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Payments under the funding agreements on Public Dental Services for Adults from 2017-18 are provided for under the health services sub-function in Table 8

Expenses for medical benefits are expected to increase by 13.0 per cent in real terms between 2019-20 and 2020-21 largely as a result of demand for the temporary COVID-19 response telehealth and pathology measures, and increase by 5.1 per cent in real terms over the period 2020-21 to 2023-24, as a result of ongoing growth in the use of medical services and the use of high value items on the Medicare Benefits Schedule.

Expenses for private health insurance are expected to increase by 4.5 per cent in real terms between 2019-20 and 2020-21, and decrease by 1.4 per cent in real terms over the period 2020-21 to 2023-24. The proportion of Australians with private health insurance is currently around 52.9 per cent.

Expenses for dental services are expected to increase by 19.8 per cent in real terms between 2019-20 and 2020-21, and increase by 1.7 per cent in real terms over the period 2020-21 to 2023-24, reflecting higher use of the Child Dental Benefits Schedule.

Expenses for the **pharmaceutical benefits and services** sub-function are expected to increase by 1.7 per cent in real terms over the period 2019-20 to 2020-21. This is largely reflecting the impacts of existing pricing policies under the Pharmaceutical Benefits Scheme (PBS).

The major components of the pharmaceutical benefits and services sub-function are set out in Table 8.2.

Table 8.2: Trends in the major components of pharmaceutical benefits and services sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Pharmaceutical benefits, services and supply	13,432	13,716	13,648	13,986	14,306
Immunisation	440	472	479	473	479
Veterans' pharmaceutical benefits	303	299	319	318	319
Total	**14,175**	**14,487**	**14,445**	**14,777**	**15,104**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

The Australian Government's contribution to public hospital funding is reported through the **assistance to the States for public hospitals** sub-function. Hospital services covered by this sub-function include all admitted services, programs that deliver hospital services in the home and emergency department services. Expenditure for this sub-function is expected to increase by 4.1 per cent in real terms from 2019-20 to 2020-21, largely reflecting higher anticipated growth in the volume of services. Expenditure also reflects the impact of the *National Efficient Price 2020-21* determination. Expenditure is expected to increase by 14.4 per cent in real terms over the period 2020-21 to 2023-24, reflecting the Government's agreement with states and territories for the Commonwealth to fund 45.0 per cent of the efficient growth in activity based services for public hospitals from 2020-21 to 2024-25.

The **hospital services** sub-function consists mainly of payments to the states and territories to deliver veterans' hospital services. Expenditure for this sub-function is expected to decrease by 6.8 per cent in real terms between 2019-20 and 2020-21, and by 5.1 per cent in real terms over the period 2020-21 to 2023-24. The decrease in expenses reflects an expected reduction in the number of veterans requiring treatment and efficiencies achieved in the pricing arrangements.

Expenses in the **health services** sub-function include Australian Government expenses associated with the delivery of population health, medical research, mental health, blood and blood products, other allied health services, health infrastructure and disbursements from the Medical Research Future Fund.

Health services expenditure is expected to increase by 9.6 per cent in real terms between 2019-20 and 2020-21, largely reflecting the schedule of payments made under the funding agreements for the COVID-19 Response, National Health Innovation Fund and for the Community Health and Hospitals Program.

The **general administration** sub-function includes the Government's general administrative costs, investment in health workforce measures and support for rural health initiatives. Expenditure for this sub-function is expected to increase by 10.7 per cent in real terms between 2019-20 and 2020-21 largely as a result of temporary resourcing to support the response to the COVID-19 pandemic.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to decrease by 0.3 per cent in real terms from 2019-20 to 2020-21, and increase by 1.2 per cent in real terms over the period 2020-21 to 2023-24 as Aboriginal and Torres Strait Islander people across Australia continue to access Indigenous-specific services under the Indigenous Australians Health Program.

Social security and welfare

The social security and welfare function includes expenses for pensions and services to the aged; assistance to the unemployed; people with disabilities and families with children; and income support and compensation for veterans and their dependants. It also includes assistance provided to Indigenous Australians that has not been included under other functions.

Table 9: Summary of expenses — social security and welfare

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Assistance to the aged	71,855	77,986	75,987	78,945	82,089
Assistance to veterans and dependants	7,711	8,047	6,812	6,588	6,365
Assistance to people with disabilities	49,038	56,157	55,715	55,966	57,211
Assistance to families with children	38,604	42,221	38,345	38,930	39,757
Assistance to the unemployed and the sick	20,128	34,095	17,302	14,095	13,023
Other welfare programs	1,869	2,044	1,364	1,336	1,356
Assistance for Indigenous Australians nec	2,388	2,415	2,377	2,347	2,487
General administration	4,526	4,563	3,829	3,355	3,193
Total social security and welfare	**196,119**	**227,529**	**201,730**	**201,562**	**205,480**

Expenses in the social security and welfare function are estimated to increase by 15.4 per cent in real terms from 2019-20 to 2020-21, and decrease by 13.6 per cent in real terms from 2020-21 to 2023-24.

The most significant drivers of this growth are the **assistance to the aged, assistance to the unemployed** and **assistance to people with disabilities** sub-functions. The **assistance to the aged** sub-function is expected to grow by 8.0 per cent in real terms between 2019-20 and 2020-21, and by 0.6 per cent in real terms from 2020-21 to 2023-24. The **assistance to the unemployed** sub-function is expected to grow by 68.5 percent in real terms between 2019-20 and 2020-21, and decrease by 63.5 per cent in real terms from 2020-21 to 2023-24, reflecting the impact of, and recovery from, the COVID-19 pandemic. The **assistance to people with disabilities** sub-function is expected to grow by 13.9 per cent in real terms from 2019-20 to 2020-21, and decrease by 2.6 per cent in real terms from 2020-21 to 2023-24.

The principal driver of growth over the forward estimates for the **assistance to the aged** sub-function is Income Support for Seniors, which is estimated to grow by 6.3 per cent in real terms from 2019-20 to 2020-21, and decline by 1.8 per cent in real terms from 2020-21 to 2023-24. The increase in expenditure in 2020-21 reflects higher recipient numbers and payment rates due to the economic impact of COVID-19 on the incomes and assets of Age Pension recipients. Expenditure has also increased in 2020-21 due to the one-off-payments made under the 2020-21 Budget measure *COVID-19 Response Package – further economic support payments*. The growth is expected to slow from 2021-22 onwards as the economy recovers from the impacts of the pandemic.

Also contributing to the overall growth in expenditure for the **assistance to the aged** sub-function is growth in the Aged Care Services program, which is estimated to grow by 10.0 per cent in real terms from 2019-20 to 2020-21, largely reflecting the impact of COVID-19 related expenditure, and by 13.1 per cent in real terms from 2020-21 to 2023-24, largely reflecting demographic factors and the impact of the 2020-21 Budget measure *Ageing and Aged Care* which releases additional home care packages and supports the Government's aged care reforms.

The estimated increase of 189.6 per cent in real terms from 2019-20 to 2020-21 for the Aged Care Quality program is mainly attributable to increased expenditure in 2020-21 to support aged care providers to manage the impacts of COVID-19.

Expenses for veterans' community care and support are estimated to decrease by 4.6 per cent in real terms from 2019-20 to 2020-21, and by 27.8 per cent in real terms from 2020-21 to 2023-24, predominantly reflecting an expected reduction in the number of beneficiaries with the percentage of veterans as part of the broader aged care population also declining.

The major components of the assistance to the aged sub-function are outlined below in Table 9.1.

Table 9.1: Trends in the major components of assistance to the aged sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Income Support for Seniors	50,104	53,549	51,425	53,089	54,977
Aged Care Services	19,757	21,849	23,032	24,500	25,851
Veterans' Community Care and Support	991	950	903	806	718
Access and information	230	273	296	230	229
Mature Age Income Support	152	87	9	0	0
Aged Care Quality	236	688	231	227	224
Allowances, concessions and services for seniors	379	570	79	74	70
National Partnership Payments - Assistance to the Aged	7	20	13	19	20
Total	**71,855**	**77,986**	**75,987**	**78,945**	**82,089**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses for **assistance to veterans and dependants** is expected to increase by 3.8 per cent in real terms from 2019-20 to 2020-21, and decrease by 24.4 per cent in real terms from 2020-21 to 2023-24. The increase from 2019-20 to 2020-21 largely reflects the impact of COVID-19 related expenditure. The decrease from 2020-21 to 2023-24 is mainly attributable to the declining veteran population.

Expenses for the **assistance to people with disabilities** sub-function are expected to increase by 13.9 per cent in real terms from 2019-20 to 2020-21, and decrease by 2.6 per cent in real terms from 2020-21 to 2023-24. The increase from 2019-20 to 2020-21

reflects a higher number of people with a disability entering the National Disability Insurance Scheme under transition arrangements with the states and territories. The decrease from 2020-21 to 2023-24 largely reflects the payment profile from the DisabilityCare Australia Fund agreed through respective funding agreements.

Expenses for the Income Support for People with Disability program, which primarily consists of Disability Support Pension (DSP), are estimated to increase by 3.6 per cent in real terms from 2019-20 to 2020-21, and decrease by 7.3 per cent in real terms from 2020-21 to 2023-24, which reflects lower estimated recipient numbers.

Expenses for the Income Support for Carers component are estimated to increase by 7.2 per cent in real terms from 2019-20 to 2020-21, and 0.6 per cent in real terms from 2020-21 to 2023-24. This reflects higher recipient numbers and payment rates, in part driven by worsening economic conditions due to the COVID-19 pandemic.

The major components of the assistance to people with disabilities sub-function are outlined below in Table 9.2.

Table 9.2: Trends in the major components of assistance to people with disabilities sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Income Support for People with Disability	17,781	18,506	17,328	17,329	17,940
National Disability Insurance Scheme(b)	18,676	23,431	25,448	25,615	25,706
Income Support for Carers	9,375	10,102	9,777	10,139	10,625
Assistance to the States for Disability Services	174	0	0	0	0
Disability and Carers	1,449	1,771	1,811	1,796	1,796
National Partnership Payments - Assistance to People with Disabilities	1,582	2,347	1,350	1,087	1,143
Total	**49,038**	**56,157**	**55,715**	**55,966**	**57,211**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Includes both Commonwealth and State contributions to the cost of the National Disability Insurance Scheme delivered through the National Disability Insurance Agency, which is a Commonwealth agency in the General Government Sector, and the cost of the NDIS Transition program delivered by the Department of Social Services.

Expenses for the **assistance to families with children** sub-function are expected to increase by 8.8 per cent in real terms from 2019-20 to 2020-21, and decrease by 10.0 per cent in real terms from 2020-21 to 2023-24, driven primarily by increased expenditure in 2020-21 related to COVID-19, which will reduce over time as the economy stabilises. The major programs impacted by this trend include Support for the Childcare System, Parents' Income Support, the Child Care Subsidy and the Family Tax Benefit (FTB). FTB expenses are expected to increase by 5.3 per cent in real terms from 2019-20 to 2020-21, and decrease by 10.8 per cent in real terms from 2020-21 to 2023-24. The decrease in expenses to 2023-24 is driven by estimated recipient numbers and average payment rates falling from 2021-22 as the economy recovers from COVID-19 impacts.

The **assistance to families with children** sub-function profile includes an increase in Child Care Subsidy expenses of 12.8 per cent in real terms from 2019-20 to 2020-21, and by 9.6 per cent in real terms from 2020-21 to 2023-24. The increase primarily reflects expected continued growth in the use of child care by families and also reflects expected increases in fees charged by child care providers.

Support for the child care system expenses are expected to increase by 311.4 per cent in real terms from 2019-20 to 2020-21, and decrease by 69.2 per cent in real terms from 2020-21 to 2023-34. The increase in expenses from 2019-20 to 2020-21 is driven by Transition Payments provided to Early Childhood Education and Care (ECEC) services until 27 September 2020, and additional support provided to Victorian ECEC services until 31 January 2021, to help services remain viable during the COVID-19 pandemic.

Expenses for Paid Parental Leave (PPL) are estimated to decrease by 5.6 per cent in real terms from 2019-20 to 2020-21, and increase by 6.2 per cent in real terms from 2020-21 to 2023-24. These changes are primarily due to the impact of the COVID-19 pandemic, which has resulted in fewer people qualifying for the payment in 2019-20 and 2020-21, despite the Government temporarily relaxing work test arrangements as part of the 2020 Women's Economic Security Statement, as recipients are required to be in paid employment in order to receive the entitlement. It is anticipated that demand for the payment will return to pre-pandemic levels as employment improves across the forward estimates.

Expense for Parents Income Support are expected to increase by 11.2 per cent in real terms from 2019-20 to 2020-21, and decrease by 31.4 per cent in real terms from 2020-21 to 2023-24 due to the temporary Coronavirus Supplement, resulting in an increase in expenditure within the 2020-21 financial year. Following this temporary increase in expenditure, expenses within the sub-function are expected to be stable once the impact of the COVID-19 pandemic has passed.

The major components of the assistance to families with children sub-function are set out in Table 9.3.

Table 9.3: Trends in the major components of assistance to families with children sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Family tax benefit	18,333	19,405	18,208	18,012	18,102
Child Care Subsidy	7,921	8,978	9,331	9,843	10,292
Parents income support	6,442	7,203	4,995	5,071	5,165
Paid Parental Leave	2,399	2,277	2,283	2,411	2,529
Child support	2,330	2,095	2,124	2,161	2,202
Support for the child care system	324	1,341	409	424	432
Families and Children	551	625	672	682	703
Family relationship services	183	182	212	215	218
Child Payments	106	96	96	95	98
Other	14	17	16	17	17
Total	**38,604**	**42,221**	**38,345**	**38,930**	**39,757**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses for the **assistance to the unemployed and the sick** sub-function are estimated to increase by 68.5 per cent in real terms from 2019-20 to 2020-21, and to decrease by 63.5 per cent in real terms from 2020-21 to 2023-24. The increase in 2020-21 is primarily due to a rise in unemployment driven by the adverse economic effects of the COVID-19 pandemic and the implementation of the temporary Coronavirus Supplement at $550 per fortnight until 24 September 2020 and at $250 per fortnight until 31 December 2020. Following this temporary increase in expenditure, expenses within the sub-function are expected to decline once the impact of the COVID-19 pandemic has passed.

Expenses for the **assistance for Indigenous Australians not elsewhere classified (nec)** sub-function are estimated to increase by 0.7 per cent in real terms from 2019-20 to 2020-21, and decrease by 1.5 per cent in real terms from 2020-21 to 2023-24. This decrease is largely due to the 2019-20 Budget measure *Single National Mechanism for Commonwealth Legal Assistance* which resulted in the expenditure being recorded against the courts and legal services sub-function from 2020-21, and the 2019-20 MYEFO measure *Biosecurity Services — increased cost recovery and not proceeding with original imports levy* which transferred expenses for some Indigenous Ranger programs to the general administration — agriculture, forestry and fishing sub-function.

Expenses for the **general administration** sub-function are estimated to decrease by 33.1 per cent in real terms from 2020-21 to 2023-24. This is mainly attributable to an estimated reduction in recipients of income support payments once the impact of the COVID-19 pandemic has passed, as well as the implementation of measures by Services Australia and the Department of Social Services, involving upfront service delivery costs that are estimated to decrease over time.

Housing and community amenities

The housing and community amenities function includes expenses for the Australian Government's contribution to the National Housing and Homelessness Agreement, other Australian Government housing programs, the expenses of Defence Housing Australia (DHA), urban and regional development programs and environmental protection initiatives.

Table 10: Summary of expenses — housing and community amenities

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Housing	2,752	3,709	2,867	2,656	2,519
Urban and regional development	1,292	1,954	1,267	913	682
Environment protection	1,288	1,423	1,579	1,603	1,594
Total housing and community amenities	**5,332**	**7,086**	**5,713**	**5,172**	**4,794**

Total expenses under the housing and community amenities function are estimated to increase by 32.2 per cent in real terms from 2019-20 to 2020-21, and decrease by 35.3 per cent in real terms from 2020-21 to 2023-24. The decrease is primarily driven by reduced expenses for the **housing** sub-function due to the ending of the time-limited HomeBuilder program and the **urban and regional development** sub-function, reflecting completion of projects under key programs.

The **housing** sub-function includes the Australian Government's contribution to the National Housing and Homelessness Agreement, the provision of housing for the general public and people with special needs, and DHA expenses. Expenses for this sub-function are estimated to increase by 34.1 per cent in real terms from 2019-20 to 2020-21, and decrease by 35.1 per cent in real terms from 2020-21 to 2023-24. This is largely the result of the $680 million HomeBuilder program, which is a time-limited grant program in 2020-21 to help eligible owner-occupiers (including first home buyers) to build a new home or substantially renovate an existing home as well as helping the residential construction market to recover from the impacts of COVID-19. It also reflects decreasing payments under the National Rental Affordability Scheme which is now closed to new applicants.

The Government also provides housing support through the National Housing Finance and Investment Corporation in the form of loans, investments and grants to encourage investment in housing, with a particular focus on affordable housing.

The **urban and regional development** sub-function comprises of City and Regional Deals, services to territories and regional development programs, including Community Development Grants and the Building Better Regions Fund. Expenses are estimated to increase by 50.5 per cent in real terms from 2019-20 to 2020-21 reflecting a number of 2020-21 Budget measures, including *Supporting Regional Australia, Community Development Grants – new projects, Extending the Stronger Communities Programme – round six, Services to Territories* and the *Perth City Deal*. Expenses are expected to reduce

by 66.6 per cent in real terms from 2020-21 to 2023-24, largely reflecting the expected completion of a number of projects under key programs, such as the Building Better Regions Fund, the National Stronger Regions Fund, the Regional Jobs and Investment packages, the Regional Growth Fund, and various City Deals.

The **environment protection** sub-function includes expenses for a variety of initiatives, including the protection and conservation of the environment, water and waste management, pollution abatement and environmental research. Expenses are estimated to increase by 9.9 per cent in real terms from 2019-20 to 2020-21, and increase by 7.1 per cent in real terms from 2020-21 to 2023-24. The increase from 2019-20 to 2020-21 is primarily due to the re-profiling of expenses from 2019-20 to 2020-21 across several environment programs, due to the impacts of COVID-19. The increase from 2020-21 to 2023-24 is primarily due to additional grant expenditure for the National Water Infrastructure Development Fund through the 2020-21 Budget measure *JobMaker Plan — National Water Grid — investing in a long-term approach to water infrastructure*.

Recreation and culture

The recreation and culture function includes expenses to support public broadcasting and cultural institutions, funding for the arts and the film industry, assistance to sport and recreation activities, as well as the management and protection of national parks and other world heritage areas. This function also includes expenses relating to the protection and preservation of historic sites and buildings, including war graves.

Table 11: Summary of expenses — recreation and culture

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Broadcasting	1,500	1,497	1,511	1,500	1,508
Arts and cultural heritage	1,439	1,647	1,488	1,449	1,569
Sport and recreation	544	601	454	387	332
National estate and parks	487	618	547	500	492
Total recreation and culture	**3,971**	**4,364**	**4,000**	**3,836**	**3,900**

Total expenses under the recreation and culture function are estimated to increase by 9.4 per cent in real terms from 2019-20 to 2020-21, and decrease by 14.5 per cent in real terms over the period 2020-2021 to 2023-24.

Expenses under the **broadcasting** sub-function are expected to decrease by 0.7 per cent in real terms from 2019-20 to 2020-21, and decrease by 3.7 per cent in real terms from 2020-21 to 2023-24. This reflects the Government's decision to maintain the Australian Broadcasting Corporation's (ABC) operational funding at 2018-19 levels from 2019-20 to 2021-22, which has no impact on funding for transmission and distribution, and the impact of previous efficiency measures applied to the ABC and the Special Broadcasting Corporation (SBS). This indexation pause is partially offset by additional funding announced in the 2020-21 Budget measures *Media Reforms Package – screen sector support* and *Enhanced Language Services* and the 2019-20 Budget measure *Guaranteeing Australia's Public Broadcasters – funding for the ABC and SBS*.

Table 11.1 provides further details of the major components of broadcasting sub-function expenses.

Table 11.1: Trends in the major components of broadcasting sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
ABC general operational activities	939	898	905	893	900
SBS general operational activities	331	336	340	339	338
ABC transmission and distribution services	160	190	192	192	193
SBS transmission and distribution services	70	72	74	75	77
Total	**1,500**	**1,497**	**1,511**	**1,500**	**1,508**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses under the **arts and cultural heritage** sub-function are estimated to increase by 13.9 per cent in real terms from 2019-20 to 2020-21, and decrease by 8.9 per cent in real terms from 2020-21 to 2023-24. This sub-function includes funding for the arts and cultural institutions. The estimated increase from 2019-20 to 2020-21, and the decrease from 2020-21 to 2023-24 are predominantly driven by the July Update measure *COVID-19 Response Package – communications, cyber safety and the arts* that provided a range of temporary support measures. The measure also included an extension to the Location Incentive Program with a funding profile that increases in 2023-24.

Expenses under the **sport and recreation** sub-function are estimated to increase by 10.0 per cent in real terms from 2019-20 to 2020-21, and decrease by 47.2 per cent in real terms from 2020-21 to 2023-24. The increase in 2020-21 primarily reflects new spending under the 2020-21 Budget measure *Building an Active Australia – Implementing Sports 2030 – continuing the Sporting Schools Program* and COVID-19 related delays to sports grants programs which have moved expenditure from 2019-20 into 2020-21. The reduction in expenditure from 2020-21 to 2023-24 largely reflects the expected completion of grant funding for short-term community-led projects to increase participation in sport and physical activity, and the completion of elements of the national sport plan, *Sport 2030*.

Expenses under the **national estate and parks** sub-function are estimated to increase by 26.4 per cent in real terms from 2019-20 to 2020-21, and decrease by 24.0 per cent in real terms from 2020-21 to 2023-24. The increase from 2019-20 to 2020-21 reflects increased funding for the Australian Antarctic Program, and investment in heritage sites in Sydney Harbour through the 2020-21 Budget measure titled *Sydney Harbour Federation Trust – infrastructure improvements*. The decrease from 2020-21 to 2023-24 reflects a number of terminating measures for the Australian Antarctic Program and the Sydney Harbour Federation Trust.

Fuel and energy

The fuel and energy function includes expenses for the Fuel Tax Credits and Product Stewardship Waste (Oil) schemes, administered by the Australian Taxation Office. It also includes expenses related to improving Australia's energy efficiency, resource related initiatives, and programs to support the production and use of renewable energy.

Table 12: Summary of expenses — fuel and energy

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Fuel and energy	7,892	8,771	8,603	9,021	9,511
Total fuel and energy	**7,892**	**8,771**	**8,603**	**9,021**	**9,511**

Fuel and energy expenses are estimated to increase by 10.6 per cent in real terms from 2019-20 to 2020-21, and increase by 3.7 per cent in real terms over the period 2020-21 to 2023-24.

Table 12.1 provides further details of the fuel and energy sub-function.

Table 12.1: Trends in the major components of fuel and energy sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Fuel Tax Credits Scheme	7,343	7,838	7,925	8,380	8,947
Resources and Energy	85	105	60	47	53
Renewable Energy	256	433	336	313	270
Other	208	395	282	282	241
Total	**7,892**	**8,771**	**8,603**	**9,021**	**9,511**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

The major program within this function is the Fuel Tax Credits Scheme, which is estimated to increase by 6.2 per cent in real terms from 2019-20 to 2020-21, and increase by 9.1 per cent in real terms from 2020-21 to 2023-24, largely reflecting increased use of fuels that are eligible for the Fuel Tax Credits Scheme.

Expenses under the Resources and Energy component are estimated to increase by 22.8 per cent in real terms from 2019-20 to 2020-21, and decrease by 52.1 per cent in real terms from 2020-21 to 2023-24. The increase in expenses to 2020-21 reflects a number of new measures announced in the 2020-21 Budget, including the *National Radioactive Waste Management Facility program – continuation* and *JobMaker Plan – gas-fired recovery*. The decrease in expenses from 2020-21 to 2023-24 reflects the terminating nature of these new measures.

Expenses under the Renewable Energy component are expected to increase by 68.2 per cent in real terms from 2019-20 to 2020-21, and decline by 40.4 per cent from 2020-21 to 2023-24, which reflects a number of new measures, including the Future Fuels Fund and the Technology Co-Investment Fund. The overall decrease in expenses under the Renewable Energy component from 2020-21 to 2023-24 reflects the Australian Renewable Energy Agency's legislated funding profile, which is partially offset by additional grant funding provided to the Australian Renewable Energy Agency in the 2020-21 Budget measure *JobMaker Plan — investment in new energy technologies*.

Agriculture, forestry and fishing

The agriculture, forestry and fishing function includes expenses to support assistance to primary producers, forestry, fishing, land and water resources management, quarantine services and contributions to research and development.

Table 13: Summary of expenses — agriculture, forestry and fishing

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Wool industry	58	48	48	51	54
Grains industry	199	226	241	208	210
Dairy industry	55	53	53	53	54
Cattle, sheep and pig industry	230	235	242	242	242
Fishing, horticulture and other agriculture	393	496	315	319	331
General assistance not allocated to specific industries	39	38	36	36	36
Rural assistance	426	1,185	497	381	294
Natural resources development	431	845	1,603	1,069	885
General administration	754	788	845	822	766
Total agriculture, forestry and fishing	**2,584**	**3,913**	**3,880**	**3,182**	**2,871**

Total expenses under this function are estimated to increase by 50.7 per cent in real terms from 2019-20 to 2020-21, and decrease by 29.8 per cent in real terms over the period 2020-21 to 2023-24.

The **rural assistance** sub-function is expected to increase by 177.1 per cent in real terms from 2019-20 to 2020-21, and decrease by 76.3 per cent in real terms over the period 2020-21 to 2023-24. The initial increase from 2019-20 to 2020-21 mainly reflects the additional package of measures provided to support farmers and communities in drought and COVID-19 response measures. In particular, this includes the discount expenses associated with the $2.1 billion of additional concessional loan funding through the Regional Investment Corporation (RIC) in the July Update measure *Drought Response, Resilience and Preparedness Plan — further support for farmers and communities in drought*. The subsequent decrease from 2020-21 to 2023-24 mainly relates to the profile of expenses for the concessional loans through the RIC and the cessation of temporary COVID-19 response measures in 2020-21.

The majority of expenses under the **natural resources development** sub-function are related to water initiatives comprising urban and rural programs, including irrigation modernisation, recycling and stormwater capture. Additional investment to enhance the environmental outcomes in the Murray-Darling Basin under the Water for the Environment Special Account, is reflected under the net capital investment component of this Statement.

Table 13.1 provides further details of the natural resources development sub-function.

Table 13.1: Trends in the major components of natural resources development sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Water reform(b)	198	559	1,287	835	680
Sustainable management - natural resources	7	15	15	15	1
Other	227	271	301	219	204
Total	**431**	**845**	**1,603**	**1,069**	**885**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Water Reform includes the following programs: National Partnership Payments — Water and Natural Resources; Water Reform; and Commonwealth Environment Water.

Expenses under the **natural resources development** sub-function are estimated to increase by 95.1 per cent in real terms from 2019-20 to 2020-21, which reflects the Government's commitment to enhancing the implementation of the Murray-Darling Basin Plan (the Basin Plan). The increase of 0.2 per cent in real terms from 2020-21 to 2023-24 reflects continued investment in programs and activities under the Basin Plan, funded through the Sustainable Rural Water Use and Infrastructure Program and the Water for the Environment Special Account.

Mining, manufacturing and construction

The mining, manufacturing and construction function includes expenses for programs designed to promote the efficiency and competitiveness of Australian industries. The major components include the Research and Development Tax Incentive and industry assistance programs, including the Australian Technology and Science Growth Plan which supports the Government's commitment to science and innovation as key drivers of business growth, economic prosperity and job opportunities.

Table 14: Summary of expenses — mining, manufacturing and construction

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	2,819	3,306	3,696	4,026	4,112
Total mining, manufacturing and construction	**2,819**	**3,306**	**3,696**	**4,026**	**4,112**

Total expenses under the mining, manufacturing and construction function are expected to increase by 16.7 per cent in real terms from 2019-20 to 2020-21, and increase by 18.9 per cent in real terms over the period 2020-21 to 2023-24.

Table 14.1 provides further details of the major components of the mining, manufacturing and construction sub-function.

Table 14.1: Trends in major components of mining, manufacturing and construction sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Research and Development Tax Incentive	2,232	2,464	2,457	2,585	2,855
Growing Business Investment	260	400	677	796	606
Northern Australia Infrastructure Facility	91	171	303	389	420
Other	235	272	259	256	231
Total	**2,819**	**3,306**	**3,696**	**4,026**	**4,112**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses for the Research and Development Tax Incentive, administered by the Australian Taxation Office, are expected to increase by 9.8 per cent in real terms from 2019-20 to 2020-21 and by 10.8 per cent in real terms from 2020-21 to 2023-24. This is mainly due to the reforms announced in the 2020-21 Budget measure *JobMaker Plan – Research and Development Tax Incentive – supporting Australia's economic recovery* for eligible companies with an annual turnover of less than $20 million.

Expenses under the Growing Business Investment component are expected to increase by 52.6 per cent in real terms from 2019-20 to 2020-21 driven by COVID-19 delaying payments and project delivery to 2020-21. Expenses under the Growing Business Investment component of this function are expected to increase by 45.1 per cent in real terms from 2020-21 to 2023-24. The Government is supporting business investment through a range of 2020-21 Budget measures including the *JobMaker Plan – Modern*

Manufacturing Strategy, which will provide additional financial support to the manufacturing sector.

The Northern Australia Infrastructure Facility (NAIF) was established on 1 July 2016. The NAIF offers concessional finance of up to $5 billion to encourage and complement private sector investment in infrastructure that benefits northern Australia. The increase in expenses reflects the 2020-21 Budget measure *Northern Australian Infrastructure Facility — extension and enhancements*, which extends the NAIF's investment window from 30 June 2021 to 30 June 2026, expands its lending remit and processes, and includes a number of improvements to governance and administrative arrangements.

Expenses under the Other component are expected to increase by 15.3 per cent in real terms from 2019-20 to 2020-21 partially driven by the July Update measure *Unlocking Australia's Resources Potential — Exploring for the Future 2*. The decrease by 18.9 per cent in real terms from 2020-21 to 2023-24 is partially driven by the completion of the Junior Minerals Exploration Incentive program, which was extended in the 2017-18 MYEFO.

Transport and communication

The transport and communication function includes expenses to support the infrastructure and regulatory framework for Australia's transport and communication sectors.

Table 15: Summary of expenses — transport and communication

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Communication	679	1,255	1,518	1,374	1,321
Rail transport	555	1,867	2,614	2,978	3,053
Air transport	935	1,836	300	275	260
Road transport	4,499	7,379	9,337	9,745	9,837
Sea transport	438	455	444	460	465
Other transport and communication	216	268	239	222	222
Total transport and communication	**7,321**	**13,060**	**14,453**	**15,054**	**15,158**

Total expenses under this function are estimated to increase by 77.5 per cent in real terms between 2019-20 and 2020-21, and increase by 11.0 per cent in real terms over the period 2020-21 to 2023-24.

The estimated expenses for the **communication** sub-function relate to communication activities and support for the digital economy through the Department of Infrastructure, Transport, Regional Development and Communications, and the Australian Communications and Media Authority. Total expenses under this sub-function are estimated to increase by 84.0 per cent in real terms between 2019-20 and 2020-21, and increase by 0.6 per cent in real terms from 2020-21 to 2023-24. The increase in 2020-21 primarily reflects commencement in 2020-21 of the Regional Broadband Scheme, and the July Update measure *COVID-19 Response Package — communications, cyber safety and the arts*. The expected slight increase from 2020-21 to 2023-24 reflects the impact of measures providing further funding, including the 2020-21 Budget measures *Office of the eSafety Commissioner — additional funding* and *JobMaker Plan — Digital Business Plan*.

The expenses under the **rail transport** sub-function primarily consist of grants provided under the Infrastructure Investment Program. Expenses are estimated to increase by 234.5 per cent in real terms between 2019-20 and 2020-21, and increase by 56.3 per cent in real terms from 2020-21 to 2023-24. The significant initial increase in expenditure primarily reflects the additional funding provided for the Sydney Metro — Western Sydney Airport rail project in the July Update measure *COVID-19 Response Package — infrastructure stimulus*. The subsequent increase in expenditure from 2020-21 to 2023-24 reflects the Government's commitments to major rail projects, including the Sydney Metro — Western Sydney Airport, Melbourne Airport Rail Link and Geelong Faster Rail.

The estimated expenses for the **air transport** and **sea transport** sub-functions primarily relate to activities of the safety regulators — the Civil Aviation Safety Authority and the Australian Maritime Safety Authority; and support for the aviation sector as part of the Government's response to COVID-19. Total expenses under the **air transport** sub-function are estimated to increase by 95.5 per cent in real terms between 2019-20 and 2020-21, and decrease by 86.4 per cent in real terms from 2020-21 to 2023-24. The significant initial increase in expenditure is associated with the temporary support for the aviation sector as part of the Government's response to the COVID-19 pandemic through the July Update measure *COVID-19 Response Package – aviation support* and 2020-21 Budget measure *COVID-19 Response Package – additional aviation support.* The decrease in expenses from 2020-21 is due to the temporary support ceasing at the end of 2020-21. Total expenses under the **sea transport** sub-function are estimated to increase by 3.2 per cent in real terms between 2019-20 and 2020-21, and decrease by 2.2 per cent in real terms from 2020-21 to 2023-24 due to slower growth in the forecast demand for the Bass Strait Passenger Vehicle and Tasmanian Freight Equalisation Schemes.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Program. Expenses are estimated to increase by 63.2 per cent in real terms between 2019-20 and 2020-21, and increase by 27.5 per cent in real terms from 2020-21 to 2023-24. The significant initial increase in expenditure is associated with the acceleration of existing funding commitments through the 2019-20 MYEFO measures titled *Infrastructure Investment Program*, and economic stimulus initiatives through the July Update measure *COVID-19 Response Package – infrastructure stimulus* and 2020-21 Budget measure *JobMaker Plan – Infrastructure Investment – road safety and upgrades*. The subsequent increase in expenditure from 2020-21 to 2023-24 reflects the Government's continued investment in priority road projects, including through the 2020-21 Budget measures titled *JobMaker Plan – Infrastructure Investment*.

Total expenses under the **other transport and communication** sub-function are estimated to increase by 23.4 per cent in real terms between 2019-20 and 2020-21, and decrease by 20.5 per cent in real terms from 2020-21 to 2023-24. The initial increase in expenditure primarily reflects the temporary program support provided to the Infrastructure, Transport, Regional Development and Communications portfolio for the delivery of priority infrastructure and transport initiatives through the 2020-21 Budget measures *JobMaker Plan – Infrastructure Investment – road safety and upgrades* and *Supporting Infrastructure Investment*.

Other economic affairs

The other economic affairs function includes expenses on tourism and area promotion, labour market assistance, immigration, industrial relations and other economic affairs not elsewhere classified (nec).

Table 16: Summary of expenses — other economic affairs

Sub-function	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Tourism and area promotion	165	261	179	170	171
Total labour and employment affairs	3,810	7,671	5,801	4,705	4,501
Vocational and industry training	*1,083*	*4,011*	*2,120*	*1,231*	*1,225*
Labour market assistance to job seekers and industry	*2,024*	*2,527*	*2,588*	*2,557*	*2,522*
Industrial relations	*702*	*1,133*	*1,093*	*917*	*753*
Immigration	3,488	3,836	2,719	2,602	2,568
Other economic affairs nec	58,030	86,180	5,582	2,833	2,555
Total other economic affairs	**65,494**	**97,948**	**14,281**	**10,311**	**9,795**

Total expenses under the other economic affairs function are expected to increase by 48.8 per cent in real terms from 2019-20 to 2020-21, and decrease by 90.4 per cent in real terms over the period 2020-21 to 2023-24.

Expenses under the **tourism and area promotion** sub-function are expected to increase by 57.1 per cent in real terms from 2019-20 to 2020-21, and decrease by 37.2 per cent in real terms from 2020-21 to 2023-24. The increase in expenses in 2020-21 largely reflects the Government's bushfire recovery initiatives. The expenses are expected to decline over the forward estimates as these temporary support measures cease.

Expenses under the **vocational and industry training** sub-function are expected to increase by 268.3 per cent in real terms from 2019-20 to 2020-21, and decrease by 70.8 per cent in real terms from 2020-21 to 2023-24. The increase in expenses in 2020-21 reflects the Government's investment in the 2020-21 Budget in major upskilling and re-skilling programs, including the *JobMaker Plan — Skills Reform Package, JobMaker Plan — boosting apprenticeships wage subsidy* and other measures that would help businesses to retain and hire more apprentices and improve job seekers' employability to assist Australia's economic recovery from the COVID-19 pandemic. The expenses are expected to decline over the forward estimates after temporary support measures cease and as the Australian economy begins to recover.

Expenses under the **labour market assistance to job seekers and industry** sub-function are expected to increase by 24.2 per cent in real terms from 2019-20 to 2020-21 and decline by 4.6 per cent in real terms from 2020-21 to 2023-24, primarily due to the 2020-21 Budget measure *Employment Services,* and other measures announced by the Government to support job seekers retain jobs and increased access to employment services in response to the impact of COVID-19 on employment levels. The expenses are expected to decline over the forward estimates primarily as a result of efficiencies expected to be achieved by providing online support services to job-ready job seekers instead of face-to-face support.

Expenses under the **industrial relations** sub-function are expected to increase by 60.6 per cent in real terms from 2019-20 to 2020-21, reflecting an increase of payments for employee entitlements under the *Fair Entitlements Guarantee Act 2012* due to higher forecast levels of employer bankruptcy resulting from the COVID-19 pandemic. Expenses under this sub-function are expected to decrease by 36.5 per cent in real terms from 2020-21 to 2023-24.

The main components of the **immigration** sub-function relate to the management of unlawful non-citizens, the provision of migration and citizenship services, and refugee and humanitarian assistance.

Table 16.1 provides further details of the major components of the immigration sub-function expenses.

Table 16.1: Trends in major components of the immigration sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Management of unlawful non-citizens	1,975	2,244	1,285	1,261	1,250
Citizenship, visas and migration	796	822	742	682	659
Regional co-operation and refugee and humanitarian assistance	718	770	691	659	659
Total other economic affairs	**3,488**	**3,836**	**2,719**	**2,602**	**2,568**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses under this sub-function are expected to increase by 9.4 per cent in real terms between 2019-20 and 2020-21, and decrease by 36.0 per cent in real terms from 2020-21 to 2023-24.

The increase in expenditure between 2019-20 and 2020-21 largely reflects additional expenses at the onshore and offshore detention facilities due to the impact of COVID-19 including the Budget measure *COVID-19 Response Package — Christmas Island Immigration Detention Centre — reactivation.* The subsequent decrease in expenditure from 2020-21 to 2023-24 primarily reflects lower forecast occupancy rates in offshore detention.

Expenses under the **other economic affairs nec** sub-function are expected to increase by 47.8 per cent in real terms from 2019-20 to 2020-21, and decrease by 97.2 per cent in real terms from 2020-21 to 2023-24.

Table 16.2 provides further details of the major components of the other economic affairs nec sub-function expenses.

Table 16.2: Trends in major components of the other economic affairs nec sub-function expenses

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Economic Response to the Coronavirus	55,179	82,477	2,900	250	0
Promotion of Australia's export and other international economic interests(b)	501	1,139	426	362	364
Operating costs for:					
Department of Industry, Science, Energy and Resources	523	530	494	480	466
Australian Securities and Investments Commission	682	596	579	553	548
Bureau of Meteorology	401	441	448	475	463
IP Australia	204	201	209	213	218
Australian Competition and Consumer Commission	224	208	188	175	173
Australian Prudential Regulation Authority	194	205	216	202	202
National Partnership Payments - Competition and Productivity Enhancing Reform	0	261	0	0	0
Other	124	122	122	122	122
Total	**58,030**	**86,180**	**5,582**	**2,833**	**2,555**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(a) The programs Export market development grants scheme and Trade, education and investment development have been moved into the Promotion of Australia's export and other international economic interests.

The increase in expenditure for the **other economic affairs nec** sub-function between 2019-20 and 2020-21 is primarily the result of the Government's Economic Response to the Coronavirus and reflects the introduction of the JobKeeper Payment and the JobMaker Hiring Credit. The decrease in expenditure between 2020-21 and 2023-24 reflects the conclusion of JobKeeper in 2020-21, and the conclusion of the JobMaker Hiring Credit in 2022-23.

Expenses for the Department of Industry, Science, Energy and Resources are expected to remain stable in real terms from 2019-20 to 2020-21. Expenses are expected to decrease by 15.9 per cent in real terms from 2020-21 to 2023-24, largely driven by a number of measures that start and terminate during the forward estimates. These include new 2020-21 Budget measures such as the *JobMaker Plan – Modern Manufacturing Strategy* and *Australia's Cyber Security Strategy 2020.*

Expenses for the Bureau of Meteorology (the Bureau) are expected to increase by 9.3 per ent in real terms from 2019-20 to 2020-21. The increase in expenses reflects additional funding provided to the Bureau in the 2020-21 Budget measure *Bureau of Meteorology – improved security and resilience*. Expenses for the Bureau are expected to increase by 0.3 per cent in real terms from 2020-21 to 2023-24, which reflects the spending associated with information and communications technology (ICT) projects, including the second and third tranche of investment to strengthen the Bureau's ICT security and resilience and observations network announced in the 2018-19 Budget and the 2020-21 Budget.

Expenses for National Partnership Payments — Competition and Productivity Enhancing Reform reflect payments to the states for the Small Business Regulatory Reform Agenda, which commenced in 2018-19 with payments structured over three years to terminate on 30 June 2021. However, COVID-19 has prevented the states from delivering on their original expected timeframes. As a result, the Commonwealth expects to pay the states the remaining contribution of $261 million in 2020-21 once they deliver their individual reform commitments.

Other purposes

The other purposes function includes expenses incurred in the servicing of public debt interest, and assistance to state, territory and local governments. This function also includes items classified to natural disaster relief, the Contingency Reserve and expenses related to the nominal interest on unfunded liabilities for government superannuation benefits.

Table 17: Summary of expenses — other purposes

Component(a)	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Economic Response to the Coronavirus	55,179	82,477	2,900	250	0
Promotion of Australia's export and other international economic interests(b)	501	1,139	426	362	364
Operating costs for:					
Department of Industry, Science, Energy and Resources	523	530	494	480	466
Australian Securities and Investments Commission	682	596	579	553	548
Bureau of Meteorology	401	441	448	475	463
IP Australia	204	201	209	213	218
Australian Competition and Consumer Commission	224	208	188	175	173
Australian Prudential Regulation Authority	194	205	216	202	202
National Partnership Payments - Competition and Productivity Enhancing Reform	0	261	0	0	0
Other	124	122	122	122	122
Total	**58,030**	**86,180**	**5,582**	**2,833**	**2,555**

Total expenses under the other purposes function are estimated to increase by 5.4 per cent in real terms from 2019-20 to 2020-21, and increase by 30.1 per cent in real terms over the period 2020-21 to 2023-24.

Expenses under the **public debt interest** sub-function are expected to decrease by 1.2 per cent in real terms from 2019-20 to 2020-21, and increase by 1.4 per cent in real terms from 2020-21 to 2023-24. The increase in expenses reflects an increase in expected issuance of Australian Government Securities partially offset by lower issuance yields. *Statement 7: Debt Statement, Assets and Liabilities* of Budget Paper No. 1 provides further information on Government debt, including estimates of the relative contribution of capital and recurrent spending to the Government's annual borrowing task.

The decrease in expenses from 2019-20 to 2021-22 in the **nominal superannuation interest** sub-function primarily reflects the use of different discount rates. In accordance with the accounting standards, superannuation expenses for 2019-20 and 2020-21 were calculated using the long term Government Bond rate at the start of the financial year which best matched each individual scheme's liability duration. The dip in expenses in 2020-21 is due to the discount rates used in 2020-21 (1.0 to 1.7 per cent) being lower than the 2019-20 figures (1.4 to 1.9 per cent), while the forward years are estimated based on

the discount rate recommended by the superannuation scheme actuaries in preparing the latest Long Term Cost Reports (5 per cent).

Expenses under the **general purpose inter-government transactions** sub-function are expected to grow by 15.5 per cent in real terms from 2020-21 to 2023-24. Nearly all of the expenses under this sub-function relate to **general revenue assistance** paid to state and territory governments, which is expected to increase by 18.5 per cent in real terms from 2020-21 to 2023-24, and largely comprises of payments of GST entitlements provided on an 'untied' basis. Payments to state and territory governments tied to specific purposes are reported under the relevant sections in this statement. Further information on general revenue assistance to the states and territories can be found in Budget Paper No. 3, *Federal Financial Relations 2020-21.*

Expenses under **local government assistance** are expected to decrease by 16.3 per cent in real terms from 2019-20 to 2020-21, largely reflecting half of the expected 2020-21 Financial Assistance Grants being brought forward to enable the immediate use of these funds in 2019-20, particularly in areas affected by severe or unexpected weather events. Expenses for this sub-function are expected to increase by 21.0 per cent in real terms from 2020-21 to 2023-24, primarily due to additional funding provided through the July Update measure *COVID-19 Response Package — infrastructure stimulus* and 2020-21 Budget measure *JobMaker Plan — Local Roads and Community Infrastructure Program — extension*.

The **natural disaster relief** sub-function reflects financial support provided by the Australian Government to affected states and territories under the Natural Disaster Relief and Recovery Arrangements and, since November 2018, the Disaster Recovery Funding Arrangements. The profile over the forward estimates reflects expected payments to the states in relation to disaster events that have already occurred. No provision is made for future disasters.

The **contingency reserve** sub-function comprises the Contingency Reserve, which is an allowance that principally reflects anticipated events that cannot be assigned to individual programs in the preparation of the Australian Government budget estimates. It is used to ensure that the estimates are based on the best information available at the time of the Budget. It is not a general policy reserve and is not appropriated.

Allowances that are included in the Contingency Reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are allocated to specific entities for appropriation closer to the time when the associated events occur.

The **contingency reserve** sub-function in the 2020-21 Budget increases expenses by $8.1 billion in 2020-21, $12.6 billion in 2021-22, $14.8 billion in 2022-23 and $21.6 billion in 2023-24. A significant component of this is the conservative bias allowance (CBA), which makes provision for the tendency for the estimate of expenses for existing Government policy to be revised upwards in the forward years. The 2020-21 Budget includes a provision of:

- zero in the Budget year 2020-21
- ½ of a percentage point of total general government sector expenses (excluding GST payments to the states) in the first forward year 2021-22 ($2.4 billion)
- 1 per cent of expenses in the second forward year 2022-23 ($4.9 billion)
- 2 per cent provision of expenses in the third forward year 2023-24 ($10.0 billion).

The drawdown of the CBA decreased expenses by $1.1 billion in 2020-21, $1.0 billion in 2021-22 and $2.2 billion in 2022-23. This is consistent with long standing practice and does not represent a saving or offset to spending measures.

In general, the Contingency Reserve can also include:

- a provision for underspends in the current financial year reflecting the tendency for budgeted expenses for some entities or functions not to be met
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately and programs that are yet to be renegotiated with state and territory governments
- the effect, on the budget and forward estimates, of economic parameter revisions received late in the process and hence not able to be allocated to individual entities or functions
- decisions taken but not yet announced by the Government, and decisions made too late for inclusion against individual entity estimates.

General government net capital investment

Net capital investment is broadly defined as the sale and acquisition of non-financial assets less depreciation expenses. It provides a measure of the overall growth in capital assets (including buildings and infrastructure, specialist military equipment and computer software) after taking into account depreciation and amortisation as previously acquired assets age.

Government capital spending involves acquisition of physical assets, financial assets and provision of grants and subsidies to others (primarily state and territory governments), which they use to acquire assets.

Australian Government general government sector net capital investment is expected to be $7.8 billion in 2020-21, $3.8 billion higher than net capital investment in 2019-20. This change is largely due to increased investment by the Department of Defence outlined in the *2016 Defence White Paper* and *2020 Force Structure Plan*. Overall, the Government's investment in capital assets is expected to continue to increase over the forward estimates.

Details of movements are further explained in the following section.

Table 18: Estimates of total net capital investment

	MYEFO	Actual	Estimates			
	2019-20	2019-20	2020-21	2021-22	2022-23	2023-24
Total net capital investment ($m)	**4,161**	**4,005**	**7,818**	**9,906**	**11,013**	**10,819**
Per cent of GDP	0.2	0.2	0.4	0.5	0.5	0.5

Reconciliation of net capital investment since the 2019-20 MYEFO

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2019-20 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment estimates

	Estimates			
	2020-21	2021-22	2022-23	Total
	$m	$m	$m	$m
2019-20 MYEFO net capital investment	**6,309**	**8,168**	**8,695**	**23,172**
Changes from 2019-20 MYEFO to 2020-21 Budget				
Effect of policy decisions(a)	1,886	779	379	3,045
Effect of parameter and other variations	-378	958	1,940	2,520
Total variations	**1,508**	**1,738**	**2,319**	**5,565**
2020-21 Budget net capital investment	**7,818**	**9,906**	**11,013**	**28,737**

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

Forecast net capital investment for 2020-21 has increased by $1.5 billion since the 2019-20 MYEFO. This increase is driven by the effect of policy decisions of $1.9 billion, partially offset by a decrease of $378 million resulting from parameter and other variations.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2019-20 to 2023-24 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
General public services	-487	173	134	239	-250
Defence	5,124	6,616	8,819	11,042	11,653
Public order and safety	-236	178	569	-360	-351
Education	2	20	18	-3	-3
Health	875	1,136	-19	4	-25
Social security and welfare	-137	-249	-207	221	11
Housing and community amenities	-362	-183	-172	43	33
Recreation and culture	157	165	92	31	-18
Fuel and energy	80	14	2	4	-6
Agriculture, forestry and fishing	85	164	259	257	241
Mining, manufacturing and construction	-26	-16	-27	-31	-31
Transport and communication	-883	-37	-23	-56	0
Other economic affairs	-188	171	598	-236	-355
Other purposes	0	-334	-136	-140	-80
Total net capital investment	**4,005**	**7,818**	**9,906**	**11,013**	**10,819**

A significant component of the Government's net capital investment occurs in the defence function, and relates primarily to the acquisition of military equipment. Major factors contributing to changes in net capital investment, expected to occur in the following functions, include:

- **General public services** — reflects the divestment of the Commonwealth Science and Industrial Research Organisation's (CSIRO's) property portfolio, with the proceeds from divestment to be used for capital upgrades on a number of CSIRO's research facilities. The decreasing trend also reflects the Australian Taxation Office shifting to fee for service ICT arrangements

- **Defence** — reflects funding associated with the implementation of the *2016 Defence White Paper* and new or adjusted investments outlined in the *2020 Force Structure Plan* to build the future Defence Force and capability. These investments are guided through the Defence Integrated Investment Program. Major investments include military capabilities such as ships, aircraft and armoured vehicles, as well as ICT capabilities and infrastructure

- **Public order and safety** — reflects the completion of investments in national security capabilities from previous Budgets for law enforcement and intelligence agencies

- **Health** — largely reflects the purchase of masks and other personal protective equipment in response to the COVID-19 pandemic

- **Social security and welfare** — is largely driven by depreciation and amortisation of prior Commonwealth investments into Services Australia's non-financial assets such as ICT capabilities and infrastructure. This is partially offset by further Commonwealth investment in ICT capabilities and infrastructure in 2020-21 and 2021-22, including the *Welfare Payment Infrastructure Transformation – tranche four,* and *Health Delivery Modernisation – phase two: Digital Improvement*

- **Agriculture, forestry and fishing** — the increase from 2019-20 to 2023-24 reflects funding commitments from the Water for the Environment Special Account to enhance the environmental outcomes in the Murray-Darling Basin

- **Transport and communication** — reflects the proceeds from the auction of the Australian Communications and Media Authority spectrum licences in the 3.6 GHz band in 2019-20.

Table 21 reports the acquisition of non-financial assets by function before taking into account depreciation or amortisation.

Table 21: Australian Government general government sector purchases of non-financial assets by function

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
General public services	1,083	1,620	1,599	1,648	1,136
Defence	11,144	13,042	15,802	17,930	19,404
Public order and safety	701	1,062	1,466	530	514
Education	42	77	77	58	56
Health	297	294	209	214	175
Social security and welfare	723	516	552	906	687
Housing and community amenities	258	229	291	403	405
Recreation and culture	638	619	576	511	468
Fuel and energy	4	15	14	15	6
Agriculture, forestry and fishing	181	257	354	349	334
Mining, manufacturing and construction	9	22	12	8	8
Transport and communication	84	93	107	77	134
Other economic affairs	713	1,041	1,481	633	498
Other purposes	0	16	58	60	101
General government purchases of non-financial assets	**15,876**	**18,904**	**22,597**	**23,343**	**23,927**

Appendix A: Expense by Function and Sub-Function

Table A1: Estimates of expenses by function and sub-function

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
General public services					
Legislative and executive affairs	1,366	1,401	1,659	1,305	1,308
Financial and fiscal affairs	7,302	7,901	7,715	7,371	6,971
Foreign affairs and economic aid	6,270	6,541	5,868	5,954	6,513
General research	2,940	3,452	3,410	3,400	3,524
General services	855	1,190	705	695	720
Government superannuation benefits	10,739	11,279	5,055	5,115	5,290
Total general public services	**29,472**	**31,764**	**24,412**	**23,840**	**24,327**
Defence	**33,187**	**34,415**	**35,382**	**37,120**	**38,996**
Public order and safety					
Courts and legal services	1,416	1,488	1,381	1,272	1,275
Other public order and safety	4,973	4,724	4,421	4,325	4,239
Total public order and safety	**6,388**	**6,212**	**5,802**	**5,597**	**5,514**
Education					
Higher education	9,652	11,373	10,570	10,184	10,060
Vocational and other education	1,713	2,229	1,740	1,598	1,615
Schools	22,305	21,912	24,405	25,897	27,158
Non-government schools	*13,918*	*12,844*	*14,657*	*15,450*	*16,132*
Government schools	*8,387*	*9,067*	*9,748*	*10,447*	*11,027*
School education - specific funding	722	723	590	204	206
Student assistance	5,271	5,205	3,920	3,940	4,044
General administration	222	301	286	273	265
Total education	**39,885**	**41,742**	**41,512**	**42,095**	**43,349**
Health					
Medical services and benefits	32,668	36,530	36,409	37,833	39,374
Pharmaceutical benefits and services	14,175	14,487	14,445	14,777	15,104
Assistance to the States for public hospitals	22,560	23,607	25,192	26,651	28,241
Hospital services(a)	1,248	1,169	1,163	1,146	1,160
Health services	11,888	13,096	8,806	9,193	9,366
General administration	3,510	3,906	3,332	3,224	3,254
Aboriginal and Torres Strait Islander health	973	975	967	995	1,033
Total health	**87,023**	**93,771**	**90,313**	**93,819**	**97,532**

Table A1: Estimates of expenses by function and sub-function (continued)

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Social security and welfare					
Assistance to the aged	71,855	77,986	75,987	78,945	82,089
Assistance to veterans and dependants	7,711	8,047	6,812	6,588	6,365
Assistance to people with disabilities	49,038	56,157	55,715	55,966	57,211
Assistance to families with children	38,604	42,221	38,345	38,930	39,757
Assistance to the unemployed and the sick	20,128	34,095	17,302	14,095	13,023
Other welfare programs	1,869	2,044	1,364	1,336	1,356
Assistance for Indigenous Australians nec	2,388	2,415	2,377	2,347	2,487
General administration	4,526	4,563	3,829	3,355	3,193
Total social security and welfare	**196,119**	**227,529**	**201,730**	**201,562**	**205,480**
Housing and community amenities					
Housing	2,752	3,709	2,867	2,656	2,519
Urban and regional development	1,292	1,954	1,267	913	682
Environment protection	1,288	1,423	1,579	1,603	1,594
Total housing and community amenities	**5,332**	**7,086**	**5,713**	**5,172**	**4,794**
Recreation and culture					
Broadcasting	1,500	1,497	1,511	1,500	1,508
Arts and cultural heritage	1,439	1,647	1,488	1,449	1,569
Sport and recreation	544	601	454	387	332
National estate and parks	487	618	547	500	492
Total recreation and culture	**3,971**	**4,364**	**4,000**	**3,836**	**3,900**
Fuel and energy	**7,892**	**8,771**	**8,603**	**9,021**	**9,511**
Agriculture, forestry and fishing					
Wool industry	58	48	48	51	54
Grains industry	199	226	241	208	210
Dairy industry	55	53	53	53	54
Cattle, sheep and pig industry	230	235	242	242	242
Fishing, horticulture and other agriculture	393	496	315	319	331
General assistance not allocated to specific industries	39	38	36	36	36
Rural assistance	426	1,185	497	381	294
Natural resources development	431	845	1,603	1,069	885
General administration	754	788	845	822	766
Total agriculture, forestry and fishing	**2,584**	**3,913**	**3,880**	**3,182**	**2,871**

Table A1: Estimates of expenses by function and sub-function (continued)

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	**2,819**	**3,306**	**3,696**	**4,026**	**4,112**
Transport and communication					
Communication	679	1,255	1,518	1,374	1,321
Rail transport	555	1,867	2,614	2,978	3,053
Air transport	935	1,836	300	275	260
Road transport	4,499	7,379	9,337	9,745	9,837
Sea transport	438	455	444	460	465
Other transport and communication	216	268	239	222	222
Total transport and communication	**7,321**	**13,060**	**14,453**	**15,054**	**15,158**
Other economic affairs					
Tourism and area promotion	165	261	179	170	171
Total labour and employment affairs	3,810	7,671	5,801	4,705	4,501
Vocational and industry training	*1,083*	*4,011*	*2,120*	*1,231*	*1,225*
Labour market assistance to job seekers and industry	*2,024*	*2,527*	*2,588*	*2,557*	*2,522*
Industrial relations	*702*	*1,133*	*1,093*	*917*	*753*
Immigration	3,488	3,836	2,719	2,602	2,568
Other economic affairs nec	58,030	86,180	5,582	2,833	2,555
Total other economic affairs	**65,494**	**97,948**	**14,281**	**10,311**	**9,795**
Other purposes					
Public debt interest	16,923	16,804	17,365	17,774	17,812
Interest on Commonwealth Government's behalf	*16,923*	*16,804*	*17,365*	*17,774*	*17,812*
Nominal superannuation interest	7,673	7,004	11,731	12,063	12,393
General purpose inter-government transactions	64,603	64,092	71,213	75,468	79,461
General revenue assistance - *States and Territories*	*62,027*	*61,926*	*68,034*	*72,807*	*76,721*
Local government assistance	*2,576*	*2,166*	*3,179*	*2,661*	*2,740*
Natural disaster relief	1,863	482	832	155	0
Contingency reserve	0	8,068	12,570	14,811	21,612
Total other purposes	**91,062**	**96,449**	**113,711**	**120,271**	**131,278**
Total expenses	**578,549**	**670,330**	**567,491**	**574,907**	**596,619**

(a) The hospital services sub-function predominantly reflects Commonwealth funding to the States and Territories for veterans' hospital services.

Statement 7: Debt Statement

The Debt Statement provides information on current and projected Government gross debt, estimated and projected net debt, interest costs related to Australian Government Securities (AGS) and details of climate spending, including the extent to which this spending has contributed to debt.

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Statement 7: Debt Statement

Overview

The Debt Statement provides information on current and projected Government gross debt, estimated and projected net debt, interest costs related to Australian Government Securities (AGS) and details of climate spending, including the extent to which this spending has contributed to debt.

The face value of AGS on issue (gross debt) subject to the Treasurer's Direction is expected to be around $872 billion (44.8 per cent of GDP) at 30 June 2021, increasing to around $1,138 billion (51.6 per cent of GDP) at 30 June 2024. Total AGS on issue is projected to stabilise as a share of the economy over the medium term.

The Treasurer has revised the Direction on the maximum total face value of AGS that can be on issue to $1,200 billion.

Net debt is expected to be 36.1 per cent of GDP ($703.2 billion) at 30 June 2021, increasing to a peak of 43.8 per cent of GDP ($966.2 billion) at 30 June 2024. Net debt is then projected to decrease to 39.6 per cent of GDP by the end of the medium term.

Australian Government Securities issuance

The Government finances its activities either through receipts or by borrowing. When receipts fall short of payments, the Government borrows by issuing AGS.

The Australian Office of Financial Management (AOFM) is responsible for issuing AGS and managing the Government's financing activities. The AOFM currently issues three types of securities:

- **Treasury Bonds:** medium-term to long-term securities with a fixed annual rate of interest payable every six months.
- **Treasury Indexed Bonds (TIBs)**: medium-term to long-term securities for which the capital value of the security is adjusted for movements in the consumer price index (CPI). Interest on TIBs is paid quarterly, at a fixed rate, on the adjusted capital value.
- **Treasury Notes**: short-term discount securities, which mature within one year of issuance. The volume of Treasury Notes on issue will vary over the course of the year, depending on the size and profile of the within-year funding requirements.

Within these three broad categories of AGS, issuance is undertaken into a limited number of maturities (known as lines). The number of lines on issue is determined by the AOFM as part of its debt portfolio management role. Each line has a fixed maturity date (the date on which the Government repays the principal it has borrowed) and, for

Treasury Bonds and TIBs, a coupon rate (the annual fixed interest rate paid on the security).

Concentrating AGS issuance into a limited number of lines (rather than issuing securities with a specific tenor, such as 10 years) ensures each line is sufficiently large that it can be more readily traded in the secondary market. Strong liquidity in the secondary market is attractive to investors and intermediaries, promotes demand for AGS and assists in lowering borrowing costs. All AGS issuance is undertaken in Australian dollars.

The AOFM exercises operational independence in the execution of its duties. Its announced issuance program for each year is determined on the basis of maturing AGS, net new issuance required to fund the Budget and operational considerations.

Operational considerations often mean that the annual issuance program may not be equivalent to the financing task for a particular year. For example, the AOFM may decide there is merit in partially pre-funding the following year's financing task. Alternatively, the AOFM might choose to smooth issuance across several financial years in order to minimise changes in AGS supply from one financial year to the next.

The AOFM aims to maintain an AGS yield curve out to a 30-year benchmark bond. This facilitates a lower risk profile of maturing debt, broadens the investor base and helps to reduce the impact of interest rate volatility on budget outcomes. Since the onset of the COVID-19 pandemic, the AOFM has needed to balance its longer-term issuance with shorter-term issuance to meet the significant borrowing requirement. Further details on the AOFM's debt issuance program are available on the AOFM website at www.aofm.gov.au.

Estimates and projections of key debt aggregates

The level of current and projected Government debt on issue is commonly expressed in one of two ways: gross or net debt.

Gross debt measures the face value of AGS on issue at a point in time. While gross debt is measured in face value terms, estimates and projections of AGS on issue are published in both face value and market value terms in this Statement.

- The **face value** of AGS on issue is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.[1] The total face value of AGS on issue changes when new securities are issued, or when securities are repurchased or reach maturity.

1 For TIBs, the final repayment amount paid to investors includes an additional amount owing to inflation growth over the life of the security. This amount is not included in the calculation of face value.

- The **market value** of AGS on issue represents the value of securities as traded on the secondary market, which changes continuously with movements in market prices (often quoted as a yield to maturity). Consistent with external reporting standards, the market value of AGS on issue is reported in the Australian Government general government sector balance sheet.

Net debt is equal to the sum of interest bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements). As net debt incorporates both selected financial assets and liabilities at their fair value, it provides a broader measure of the financial obligations of the Australian Government than gross debt.

Not all government assets or liabilities are included in the measurement of net debt. For example the Government's unfunded superannuation liability is not accounted for in net debt, nor are holdings of equities, for example those held by the Future Fund or the Government's equity investment in the NBN.

Estimates and projections of AGS on issue

Table 1 contains estimates of the face value (end-of-year and within-year peak)[2] and the market value (end-of-year) of AGS on issue.

The *Commonwealth Inscribed Stock Act 1911* (CIS Act) requires the Treasurer to issue a direction stipulating the maximum face value of relevant AGS that may be on issue. The Treasurer has revised the Direction on the maximum total face value of AGS that can be on issue to $1,200 billion.

As required by the *Charter of Budget Honesty Act 1998*, Table 1 reports estimates of AGS on issue subject to the Treasurer's Direction.

When considering these estimates, it is important to note that the AOFM publishes an issuance program for the budget year only. Estimates beyond the budget year are based on a set of technical assumptions and will vary with changes to these assumptions and budget estimates.

2 End-of-year values are estimates of AGS on issue at 30 June for the particular year. The precise timing and level of within-year peaks of AGS on issue cannot be determined with accuracy. The timing of the within-year peak is therefore reported to the given month in the particular year.

Table 1: Estimates of Australian Government Securities on issue subject to the Treasurer's Direction[(a)]

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	$b	$b	$b	$b
Face value — end-of-year	872	1,016	1,083	1,138
Per cent of GDP	44.8	50.5	51.6	51.6
Face value — within-year peak(b)	886	1,020	1,115	1,183
Per cent of GDP(b)	45.5	50.7	53.1	53.7
Month of peak(b)	*May-21*	*Jun-22*	*Apr-23*	*Apr-24*
Market value — end-of-year(c)	978	1,124	1,191	1,244
Per cent of GDP	50.2	55.9	56.7	56.5

(a) The same stock and securities that were excluded from the previous legislative limit are excluded from the current limit set by the Treasurer's Direction. These exclusions are outlined in subsection 51JA(2A) of the CIS Act.
(b) The precise within-year timing of cash receipts and payments is not known. Estimated peaks of AGS on issue are therefore subject to considerable uncertainty.
(c) The Treasurer's Direction applies only to the face value of AGS on issue. This table shows the equivalent market value of AGS that are subject to the Treasurer's Direction.
Source: Australian Office of Financial Management.

The total amount of AGS on issue subject to the Treasurer's Direction is reported on the AOFM website and updated weekly.

In 2020-21, the end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to be around $872 billion, compared with $558 billion at the 2019-20 MYEFO. The end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to reach around $1,138 billion in 2023-24.

In 2020-21, the face value of AGS on issue subject to the Treasurer's Direction is expected to reach a within-year peak of around $886 billion. In 2023-24, this is estimated to rise to a within-year peak of $1,183 billion.

Changes in AGS on issue since the 2019-20 MYEFO

Table 2 shows the change in the estimated end-of-year face value of AGS on issue subject to the Treasurer's Direction between the 2019-20 MYEFO and the 2020-21 Budget.

Gross debt is expected to be higher than estimated at the 2019-20 MYEFO across all years in the forward estimates. This is primarily driven by the deterioration in the underlying cash balance stemming from the Government's response to and impacts of the COVID-19 pandemic.

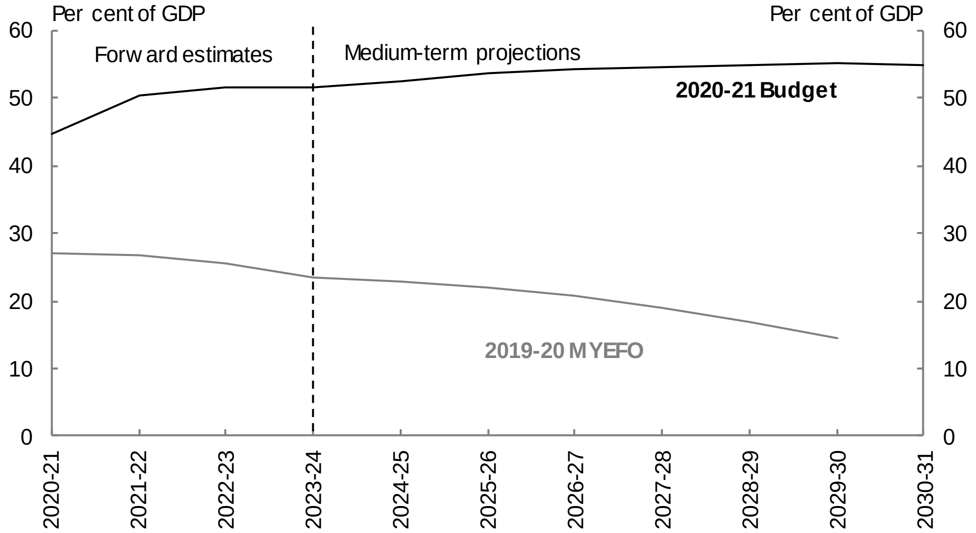
Table 2: Estimated AGS on issue subject to the Treasurer's Direction — reconciliation from the 2019-20 MYEFO to the 2020-21 Budget

	Estimates		
	2020-21	2021-22	2022-23
	$b	$b	$b
Total face value of AGS on issue subject to the Treasurer's Direction as at 2019-20 MYEFO	**558**	**576**	**576**
Factors affecting the change in face value of AGS on issue from 2019-20 MYEFO to 2020-21 Budget(a)			
Cumulative receipts decisions	12.2	45.0	55.9
Cumulative receipts variations	73.6	128.1	189.4
Cumulative payment decisions	206.0	227.0	238.3
Cumulative payment variations	18.9	30.9	39.3
Cumulative change in net investments in financial assets(b)	17.1	29.0	4.6
Other contributors	-13.5	-20.2	-20.0
Total face value of AGS on issue subject to the Treasurer's Direction as at 2020-21 Budget	**872**	**1,016**	**1,083**

(a) Cumulative impact of decisions and variations from 2020-21 to 2022-23. Increases to payments are shown as positive, and increases to receipts are shown as negative.
(b) Change in net cash flows from investments in financial assets for policy and liquidity purposes.
Note: End-of-year data.

The total face value of AGS on issue is expected to rise over the forward estimates and into the medium term, before stabilising at around 55 per cent of GDP (Chart 1). The face value of AGS on issue is projected to reach 55.1 per cent of GDP at 30 June 2030, compared with the projection of 14.6 per cent of GDP at the 2019-20 MYEFO.

Chart 1: Face value of AGS as a share of GDP

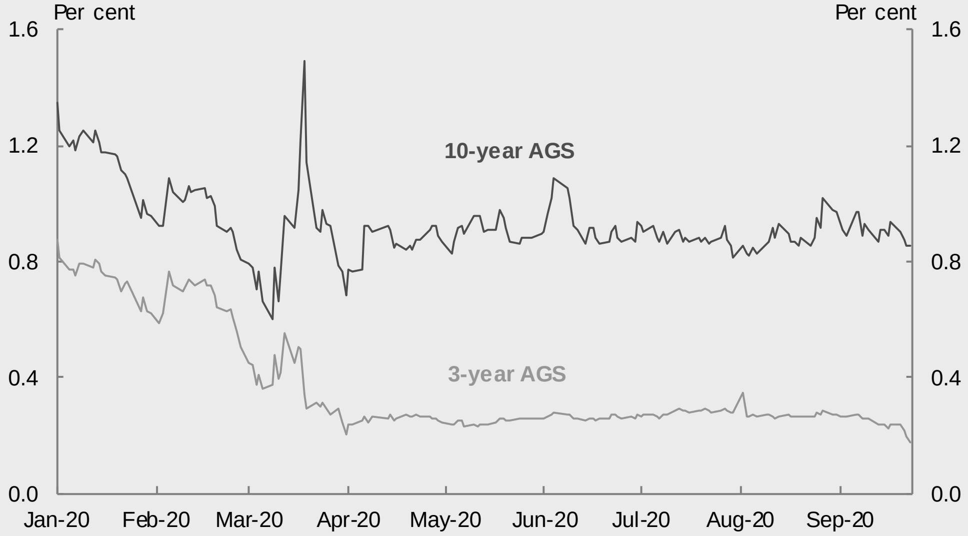


Source: Australian Office of Financial Management and Treasury projections.

Box 1: AGS market dislocation and recovery

The AGS market plays a crucial role in serving as a pricing benchmark for interest rates in the economy and for the overall operation of financial markets in Australia. The onset of the COVID-19 pandemic brought about temporary dysfunction in financial markets in Australia and globally, including the AGS market. Significant uncertainty surrounding the economic impact of the global pandemic led to extreme volatility in asset prices and widespread selling of assets as investors sought to raise cash. This was particularly focused on low-risk liquid assets such as AGS and resulted in excess supply in the secondary market, known as market congestion, and a sharp decrease in price (increase in yields) (Chart 2) and increase in spreads (the difference between the price intermediaries were willing to buy and sell AGS).

Chart 2: 3-year and 10-year AGS yields



Source: Yieldbroker.

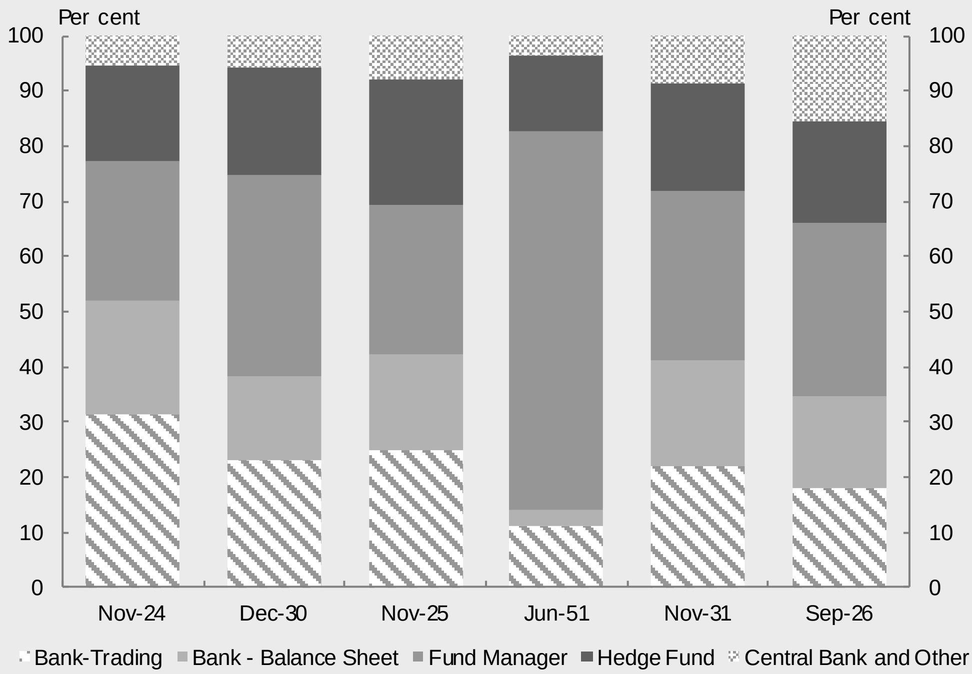
To help address this market dislocation, on 19 March 2020 the Reserve Bank of Australia (RBA) announced a range of measures to support the economy and financial markets. This included a government bond purchase program in secondary markets to achieve a target yield of 0.25 per cent for the 3-year Treasury Bond. These actions quickly proved successful, helping to clear market congestion with Treasury Bond yields falling steeply and the 3-year Treasury Bond yield remaining around the RBA's target since April. As at 25 September 2020, the RBA had purchased $52.3 billion of AGS and $11.1 billion of state and territory government issued securities, most of which occurred in March and April, reflecting the subsequent improvement in financial conditions and settlement of the AGS market. This improvement in the local market was reinforced by the actions of other central banks to address dysfunction in major global bond markets. Notably, the US Federal Reserve raised its daily target for purchases of US Treasury securities to as much as US$75 billion during the height of global market turmoil in March.

Box 1: AGS market dislocation and recovery (continued)

The increase in liquidity and removal of dislocations paved the way for the AOFM to significantly ramp up AGS issuance to meet the Government's financing task. While AGS yields have been at historic lows these have compared favourably internationally and led to investors, both domestically and offshore, seeking to buy AGS as safe assets as the global economic uncertainty continues. From 20 March to 25 September 2020, the AOFM issued more than $290 billion in AGS, including over $91 billion in Treasury Bonds and $92 billion in Treasury Notes by tenders, and $110 billion in Treasury Bonds by syndication. The syndications were used to establish six new Treasury Bond lines, with tenors ranging from four to 30 years.

The charts below show the quality and diversity of domestic and offshore investors that participated in the syndications and illustrate the continued strong support for short-term as well as long-term AGS despite the challenging economic conditions.

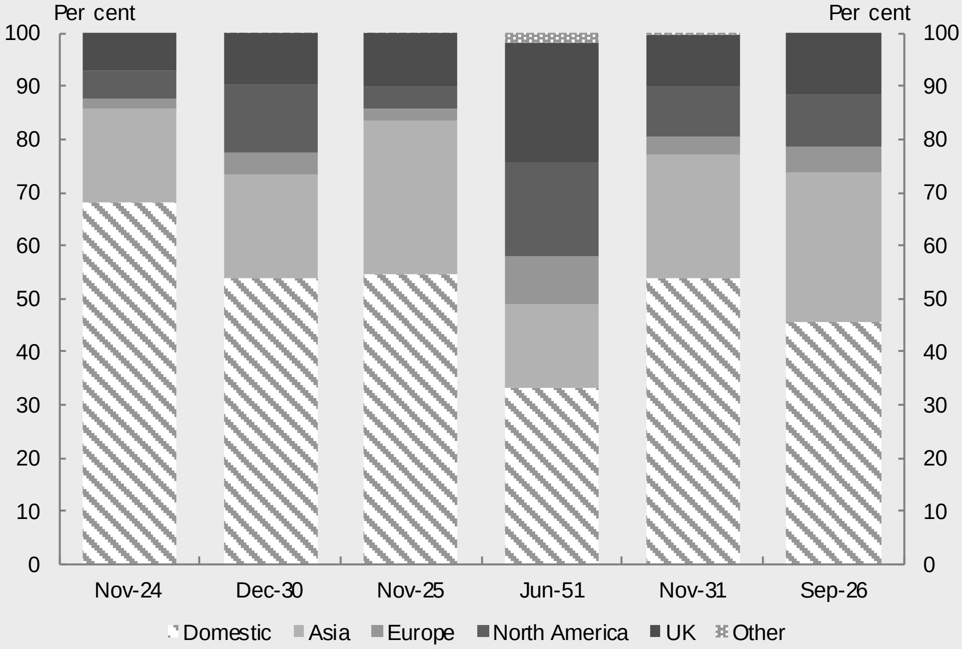
Chart 3: Bond syndications by investor type



Source: Australian Office of Financial Management.

Box 1: AGS market dislocation and recovery (continued)

Chart 4: Bond syndications by investor location



Source: Australian Office of Financial Management.

Breakdown of AGS currently on issue

Table 3 provides a breakdown of the AGS on issue by type of security as at 25 September 2020.

Table 3: Breakdown of current Australian Government Securities on issue

	On issue as at 25 September 2020	
	Face value $m	Market value $m
Treasury Bonds(a)	701,655	795,344
Treasury Indexed Bonds(a)	36,976	50,759
Treasury Notes(a)	64,000	63,981
Total AGS subject to Treasurer's Direction(a)(b)	802,631	910,084
Other stock and securities	6	6
Total AGS on issue	**802,637**	**910,090**

(a) The Treasurer's Direction applies only to the face value of AGS on issue. This table shows the equivalent market value of AGS that are subject to the Treasurer's Direction.
(b) The same stock and securities that were excluded from the previous legislative limit are excluded from the current limit set by the Treasurer's Direction. These exclusions are outlined in subsection 51JA(2A) of the CIS Act.
Source: Australian Office of Financial Management.

The difference between face value and market value arises from current yields being different to the coupon rates which were set when bonds were first established.

Treasury Bonds

Table 4 lists Treasury Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 25 September 2020, there were 30 Treasury Bond lines on issue, with a weighted average term to maturity of around 7.7 years and the longest maturity extending to June 2051.

Table 4: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 25 September 2020 $m	Timing of interest payments(a)		
1.75	21-Nov-20	17,721	Twice yearly	21-Nov	21-May
5.75	15-May-21	25,824	Twice yearly	15-May	15-Nov
2.00	21-Dec-21	16,398	Twice yearly	21-Dec	21-Jun
5.75	15-Jul-22	24,763	Twice yearly	15-Jul	15-Jan
2.25	21-Nov-22	26,500	Twice yearly	21-Nov	21-May
5.50	21-Apr-23	34,200	Twice yearly	21-Apr	21-Oct
2.75	21-Apr-24	32,900	Twice yearly	21-Apr	21-Oct
0.25	21-Nov-24	28,000	Twice yearly	21-Nov	21-May
3.25	21-Apr-25	32,400	Twice yearly	21-Apr	21-Oct
0.25	21-Nov-25	22,000	Twice yearly	21-Nov	21-May
4.25	21-Apr-26	33,400	Twice yearly	21-Apr	21-Oct
0.50	21-Sep-26	25,000	Twice yearly	21-Sep	21-Mar
4.75	21-Apr-27	29,700	Twice yearly	21-Apr	21-Oct
2.75	21-Nov-27	28,000	Twice yearly	21-Nov	21-May
2.25	21-May-28	29,700	Twice yearly	21-May	21-Nov
2.75	21-Nov-28	29,600	Twice yearly	21-Nov	21-May
3.25	21-Apr-29	32,000	Twice yearly	21-Apr	21-Oct
2.75	21-Nov-29	32,900	Twice yearly	21-Nov	21-May
2.50	21-May-30	35,400	Twice yearly	21-May	21-Nov
1.00	21-Dec-30	24,700	Twice yearly	21-Dec	21-Jun
1.50	21-Jun-31	24,500	Twice yearly	21-Jun	21-Dec
1.00	21-Nov-31	21,000	Twice yearly	21-Nov	21-May
1.25	21-May-32	16,200	Twice yearly	21-May	21-Nov
4.50	21-Apr-33	14,300	Twice yearly	21-Apr	21-Oct
2.75	21-Jun-35	8,550	Twice yearly	21-Jun	21-Dec
3.75	21-Apr-37	12,000	Twice yearly	21-Apr	21-Oct
3.25	21-Jun-39	9,100	Twice yearly	21-Jun	21-Dec
2.75	21-May-41	6,600	Twice yearly	21-May	21-Nov
3.00	21-Mar-47	13,300	Twice yearly	21-Mar	21-Sep
1.75	21-Jun-51	15,000	Twice yearly	21-Jun	21-Dec

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.
Source: Australian Office of Financial Management.

Treasury Indexed Bonds

Table 5 lists TIBs currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 25 September 2020, there were 7 TIB lines on issue, with a weighted average term to maturity of around 10.2 years and the longest maturity extending to February 2050.

Table 5: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 25 September 2020 $m	Timing of interest payments(a)				
1.25	21-Feb-22	6,840	Quarterly	21-Feb	21-May	21-Aug	21-Nov
3.00	20-Sep-25	7,593	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun
0.75	21-Nov-27	5,350	Quarterly	21-Nov	21-Feb	21-May	21-Aug
2.50	20-Sep-30	5,443	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun
2.00	21-Aug-35	4,250	Quarterly	21-Aug	21-Nov	21-Feb	21-May
1.25	21-Aug-40	3,650	Quarterly	21-Aug	21-Nov	21-Feb	21-May
1.00	21-Feb-50	3,850	Quarterly	21-Feb	21-May	21-Aug	21-Nov

(a) Where the timing of an interest payment falls on a non-business day the payment will occur on the following business day.
Source: Australian Office of Financial Management.

Treasury Notes

Table 6 lists the Treasury Notes currently on issue. As at 25 September 2020 there were 11 Treasury Note lines on issue. Treasury Notes do not pay a coupon but instead are issued at a discount to their face value.

Table 6: Treasury Notes on issue

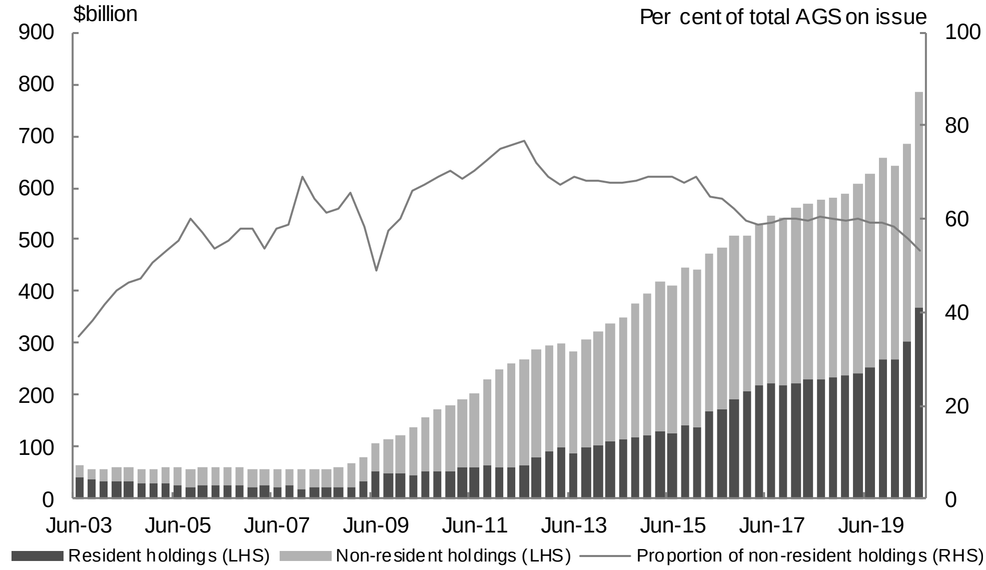
Maturity	On issue as at 25 September 2020 $m	Timing of interest payment	
23-Oct-20	12,250	At maturity	23-Oct
13-Nov-20	10,000	At maturity	13-Nov
27-Nov-20	9,500	At maturity	27-Nov
11-Dec-20	9,500	At maturity	11-Dec
29-Jan-21	4,000	At maturity	29-Jan
26-Feb-21	5,000	At maturity	26-Feb
26-Mar-21	3,750	At maturity	26-Mar
23-Apr-21	3,000	At maturity	23-Apr
21-May-21	3,000	At maturity	21-May
25-Jun-21	3,000	At maturity	25-Jun
23-Jul-21	1,000	At maturity	23-Jul

Source: Australian Office of Financial Management.

Non-resident holdings of AGS on issue

As at the June quarter 2020, the proportion of non-resident holdings of AGS was around 53 per cent (Chart 5). This proportion is down from historical highs of around 76 per cent in 2012.

Chart 5: Non-resident holdings of Australian Government Securities



Note: Data refer to the market value of holdings.
Source: ABS Balance of Payments and International Investment Position, Australia June 2020, Australian Office of Financial Management, Reserve Bank of Australia.

Estimates and projections of net debt

Table 7 contains the liabilities and assets included in net debt over the forward estimates.

Net debt is expected to be $703.2 billion (36.1 per cent of GDP) at 30 June 2021 and increase to $966.2 billion (43.8 per cent of GDP) at 30 June 2024.

Table 7: Liabilities and assets included in net debt from 2020-21 to 2023-24

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m
Liabilities included in net debt				
Deposits held	484	484	484	484
Government securities(a)	978,283	1,124,116	1,191,329	1,243,538
Loans	16,928	16,941	16,951	16,934
Other borrowing	18,893	19,565	19,572	18,899
Total liabilities included in net debt	**1,014,588**	**1,161,106**	**1,228,335**	**1,279,855**
Assets included in net debt				
Cash and deposits	5,780	6,009	6,707	6,035
Advances paid	87,054	89,173	90,646	71,727
Investments, loans and placements	218,509	253,798	231,192	235,924
Total assets included in net debt	**311,343**	**348,981**	**328,544**	**313,687**
Net debt	**703,245**	**812,125**	**899,791**	**966,168**

(a) Government securities are presented at market value.

Changes in net debt since the 2019-20 MYEFO

Table 8 shows the drivers of the change in net debt between the 2019-20 MYEFO and the 2020-21 Budget.

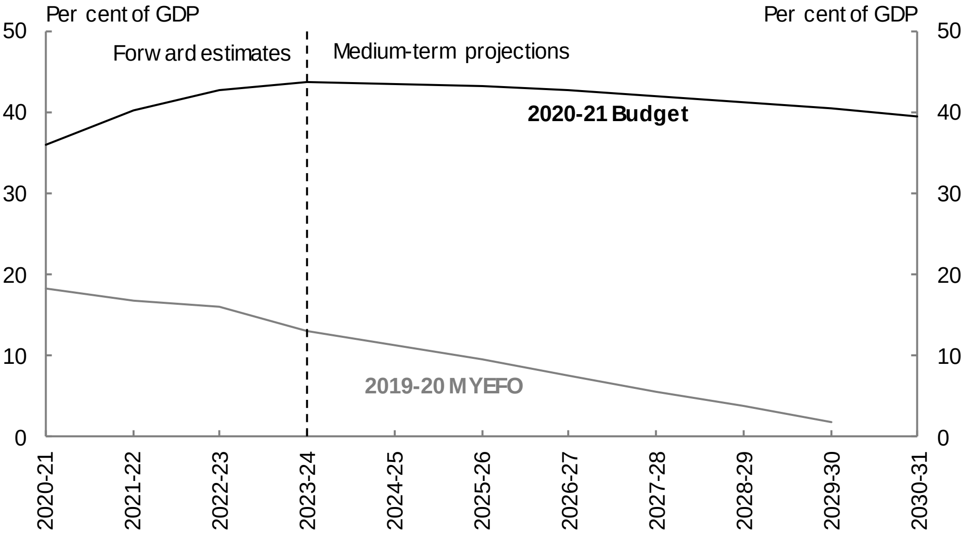
Net debt is expected to be higher than estimated at the 2019-20 MYEFO across all years in the forward estimates. This is primarily driven by the Government's increased borrowing requirements stemming from the response to and impacts of the COVID-19 pandemic.

Table 8: Net debt — reconciliation from the 2019-20 MYEFO to the 2020-21 Budget

	Estimates		
	2020-21	2021-22	2022-23
	$b	$b	$b
Net debt as at 2019-20 MYEFO	**379.2**	**364.5**	**360.8**
Changes in financing requirement	322.8	454.2	523.3
Impact of yields on AGS	12.3	13.3	13.5
Asset and other liability movements	-11.1	-19.8	2.3
Cash and deposits	*1.4*	*1.5*	*1.0*
Advances paid	*2.0*	*4.0*	*6.4*
Investments, loans and placements	*-14.6*	*-26.2*	*-5.5*
Other movements	*0.0*	*0.8*	*0.3*
Total movements in net debt from 2019-20 MYEFO to 2020-21 Budget	**324.0**	**447.6**	**539.0**
Net debt as at 2020-21 Budget	**703.2**	**812.1**	**899.8**

Net debt is estimated to rise over the forward estimates, peaking at 43.8 per cent of GDP at 30 June 2024, before falling to 39.6 per cent of GDP by the end of the medium term (Chart 6). Net debt is projected to be 40.6 per cent of GDP at 30 June 2030, compared with the projection of 1.8 per cent of GDP at the 2019-20 MYEFO.

Chart 6: Net debt as a share of GDP



Source: Treasury projections.

Further details on the changes to the fiscal outlook, including the medium-term, since the 2019-20 MYEFO can be found in *Statement 3: Fiscal Strategy and Outlook*.

Interest on AGS

The interest costs related to AGS are presented in these statements in both cash and accrual accounting terms. The difference between the cash interest payments and accrual interest expense generally relates to the timing of when the interest cost is recognised.

- **Interest payments** are recognised in the period when they are paid during the life of the security.
- **Interest expense** is recognised in the period in which an expense is incurred during the life of the security, rather when it is actually paid.

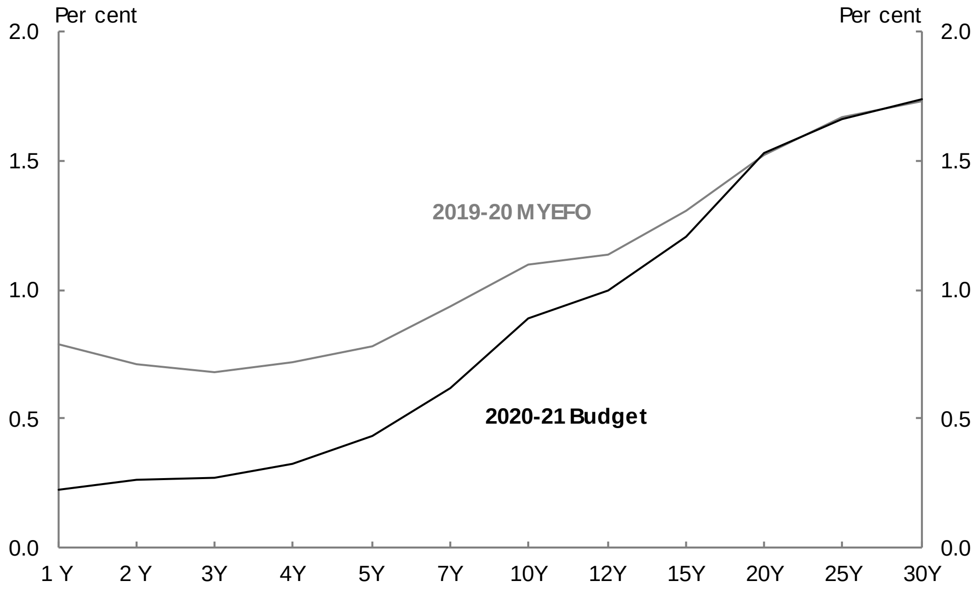
Estimates of the interest payments and expense of AGS on issue include the cost of AGS already on issue and future AGS issuance. The cost of:

- AGS already on issue uses the actual interest rates incurred at the time of issuance.
- The expected future issuance of AGS is based on the prevailing market rates across the yield curve at the time of a budget estimates update.

The assumed market yields for the 2020-21 Budget result in a weighted average cost of borrowing of around 0.8 per cent for future issuance of Treasury Bonds in the forward estimates, compared with around 1.1 per cent at the 2019-20 MYEFO.

Chart 7 shows the yield curve assumptions underpinning the 2019-20 MYEFO and 2020-21 Budget.

Chart 7: Yield curve assumptions from 2020-21 to 2023-24



Source: Australian Office of Financial Management.

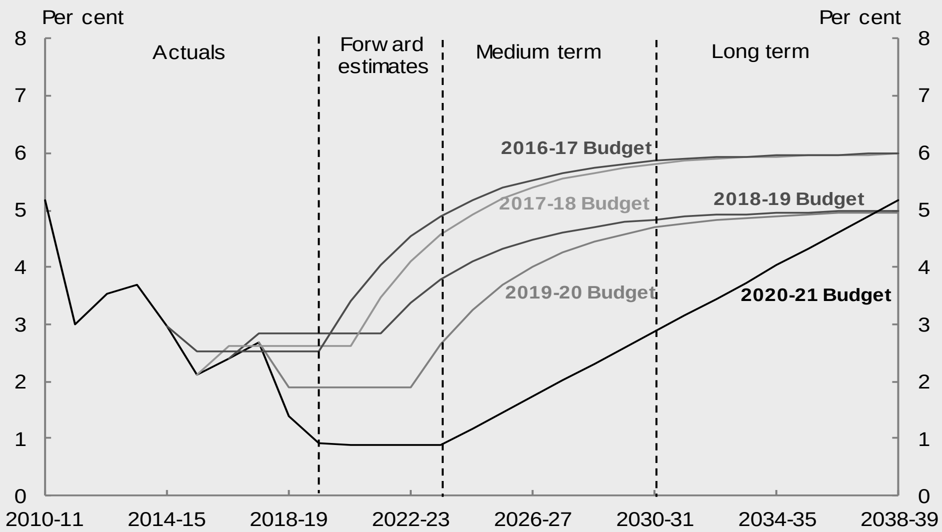
Box 2: Changes to the yield assumption underpinning medium-term fiscal projections

The medium-term fiscal projections incorporate a number of technical assumptions about future economic and fiscal conditions. A technical assumption is made about the path of yields on Government debt over the forward estimates and the medium term. The assumption is required to produce projections of public debt interest costs and therefore feeds into projections of the underlying cash balance and debt.

Over the forward estimates, the 10-year bond yield is assumed to remain fixed at the level observed prior to each economic and fiscal update.[3] It is then assumed that the 10-year bond yield converges from the start of the medium term to a long-run 10-year bond yield of around 5 per cent (6 per cent until the 2018-19 Budget). This long-run rate is consistent with long-run nominal GDP growth and with the *Long-Term Cost Report* prepared by the Australian Government Actuary.

Prior to the 2020-21 Budget, the yield curve was assumed to converge by a quarter of the difference between the previous year's yield and the long-run yield in each year over the medium term (Chart 8).

Chart 8: Convergence to long-run yield curve



Source: Treasury

For the 2020-21 Budget, the 10-year bond yield is assumed to converge in a linear fashion to the long-run yield. Under this assumption, the 10-year bond yield is assumed to reach the long-run rate 15 years after the end of the forward estimates. The slower return to the long-run yield curve is more consistent with the persistently low yields observed in recent years. As Chart 8 shows, there has been a trend decline in yields in recent years at each budget update. The new approach is also consistent with practice in other international institutions, such as the Office for Budget Responsibility in the United Kingdom and the New Zealand Treasury, which both use a linear convergence. For a further discussion on interest rates, see *Statement 4: Fiscal Policy and Economic Growth*.

Box 2: Changes to the yield assumption underpinning medium-term fiscal projections (continued)

Under the new yield assumption, the underlying cash balance is projected to improve by $26.4 billion by 2030-31 compared with the previous assumption, reflecting lower projected public debt interest costs. Cumulative improvements in the underlying cash balance are also projected to impact on gross debt and net debt projections.

For sensitivity analysis around the impact of linear convergence over a faster or slower timeframe, see *Budget Statement 8: Forecasting Performance and Sensitivity Analysis.*

The Government's interest payments and expense over the forward estimates mostly relate to the cost of servicing the stock of AGS on issue.

The Government's total interest payments in 2020-21 are estimated to be $17.2 billion, of which $16.6 billion relates to AGS on issue (Table 9).

While gross debt estimates have increased significantly, interest payments on AGS in 2020-21 are only expected to increase by 0.1 per cent of GDP compared with the estimate at the 2019-20 MYEFO, reflecting historically low interest rates.

Table 9: Interest payments, interest receipts and net interest payments[(a)]

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m
Interest payments on AGS	16,623	17,083	16,746	17,526
Per cent of GDP	0.9	0.8	0.8	0.8
Interest payments	17,230	17,655	17,333	18,122
Per cent of GDP	0.9	0.9	0.8	0.8
Interest receipts	4,133	4,202	4,221	4,475
Per cent of GDP	0.2	0.2	0.2	0.2
Net interest payments(b)	13,097	13,453	13,113	13,647
Per cent of GDP	0.7	0.7	0.6	0.6

(a) Interest payments and receipts are a cash measure, with the relevant amount recognised in the period in which the interest payment is made or interest is received.
(b) Net interest payments are equal to the difference between interest payments and interest receipts.

The Government's interest expense in 2020-21 is estimated to be $19.8 billion, of which $16.7 billion relates to AGS on issue. Table 10 shows the Government's estimated interest expense, interest expense on AGS, interest income and net interest expense over the forward estimates.

3 Prior to the 2020-21 Budget, a snapshot of the daily spot rates was used to derive a fixed yield for the forward estimates. For the 2020-21 Budget, an average of daily spot rates was used instead to minimise the likelihood of locking in high or low yields during volatile periods.

Table 10: Interest expense, interest income and net interest expense[(a)]

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m
Interest expense on AGS	16,724	17,334	17,743	17,781
Per cent of GDP	0.9	0.9	0.8	0.8
Interest expense	19,821	19,951	20,462	20,972
Per cent of GDP	1.0	1.0	1.0	1.0
Interest income	4,181	4,008	3,745	3,601
Per cent of GDP	0.2	0.2	0.2	0.2
Net interest expense(b)	15,640	15,943	16,717	17,371
Per cent of GDP	0.8	0.8	0.8	0.8

(a) Interest expense is an accrual measure, with the relevant amount recognised in the period in which the expense is incurred, but not necessarily paid.
(b) Net interest expense is equal to the difference between interest expenses and interest income.

Climate spending

The Government's climate spending is shown on an aggregated basis in Table 11.

Table 11: Climate spending from 2020-21 to 2023-24

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	$b	$b	$b	$b
Climate spending(a)(b)	1.80	1.40	1.35	1.45

(a) Spending in this table is on a headline cash balance basis — that is, payments and net cash flows from investments in financial assets for policy purposes, as well as estimated interest receipts associated with Clean Energy Finance Corporation investments.
(b) These figures do not include expected repayments from the Clean Energy Finance Corporation over the forward estimates.

The key components of climate spending are:

- the Clean Energy Finance Corporation (CEFC), which invests in renewable energy, energy efficiency and low emissions technologies
- the Australian Renewable Energy Agency, which supports research and development of renewable energy and related technologies
- the Clean Energy Regulator, which administers legislation to reduce carbon emissions and increase the use of clean energy.

The above figures incorporate the Government's decision to provide $3.5 billion over 15 years from 2018-19 for a Climate Solutions package, which provides incentives to support abatement activities across the economy. Climate spending also includes the Government's provision of a $1.9 billion package over 12 years from 2020-21 to support the acceleration of technologies that will deliver lower emissions, increase investment, lower costs and create jobs to support the economic recovery. Climate spending in

2021-22 and 2022-23 is lower than estimated at the 2019-20 MYEFO, reflecting downward revisions in CEFC investments owing to changes in market conditions.

Impact of climate spending on debt

Climate spending is financed through either receipts or debt. This Statement assumes that the proportion of climate spending being financed through new debt (as opposed to receipts) is equivalent to the proportion of total spending financed by debt. This is shown in Table 12.

Table 12: Impact on debt — climate spending as a proportion of total spending

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	$b	$b	$b	$b
Climate spending(a)	1.80	1.40	1.35	1.45
Total Spending(b)	694	576	583	583
Climate spending (per cent of total spending)	0.3	0.2	0.2	0.2
Change in face value of AGS from previous year(c)	188	144	67	55
Contribution to change in face value of AGS from climate spending	0.49	0.35	0.16	0.14

(a) The calculation of climate spending in this table is on a headline cash balance basis — that is, payments and net cash flows from investments in financial assets for policy purposes, as well as estimated interest receipts associated with the Clean Energy Finance Corporation investments.
(b) The calculation of total spending in this table is on a headline cash balance basis — that is, total payments and net cash flows from investments in financial assets for policy purposes.
(c) Calculations of the change in the face value of AGS are calculated using total AGS on issue.

Statement 8: Forecasting Performance and Scenario Analysis

The economic and fiscal estimates presented in the 2020-21 Budget incorporate assumptions and judgments based on information available at the time of preparation. These estimates are subject to significant uncertainty.

This Statement provides details on the performance of Budget forecasts for real and nominal GDP as well as government receipts, payments and the underlying cash balance. The Statement also presents a number of scenarios that illustrate the impact of changes in economic forecasts and projections and some underlying assumptions.

The COVID-19 pandemic has resulted in heightened uncertainty. Australia's path to recovery depends on a range of health, economic and social factors and it is the interplay between these factors which will influence Australia's future economic and fiscal position.

While it is always important to consider historical forecasting performance and likely future scenarios, the current environment of heightened uncertainty makes such comparisons and scenario analysis particularly important.

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Statement 8: Forecasting Performance and Scenario Analysis

Overview

Macroeconomic and fiscal forecasts are important for government policy and decision making. The macroeconomic and fiscal forecasts in the Budget are prepared using assumptions and judgments, based on information available at the time of preparation. Better forecasting and a better understanding of the uncertainties around the forecasts contribute to better decision making and better policy.

This Statement assesses the historical performance of budget forecasts and presents assessments of uncertainty around the forecasts. These assessments are consistent with the practice of many other international fiscal agencies to improve forecasting performance and, more importantly, to raise awareness of the uncertainties inherent in forecasting. The specific assessments in this Statement are based on observed historical patterns of forecast errors and do not reflect the uncertainties arising from COVID-19. Given the COVID-19 pandemic is still evolving, unforeseen developments may lead to significant variations from current forecasts.

This Statement presents a number of scenarios which analyse the sensitivity of 2020-21 Budget forecasts and projections to changes in assumptions. This is consistent with the requirements under the *Charter of Budget Honesty Act 1998*.

Forecasting performance

Forecasting uncertainty in the COVID-19 context

There is an inherent level of uncertainty in forecasting macroeconomic and fiscal behaviours at any time. Forecast errors (the differences between forecasts and outcomes) can arise for a range of reasons — for example, differences between the assumed path of key variables and outcomes, changes in the relationship between different parts of the economy, and unexpected events.

This Statement presents confidence intervals consistent with practice in previous Budget updates. The confidence intervals provide a guide to the degree of uncertainty around a forecast if it is assumed that the forecast errors are consistent with errors over the past 20 years.[1] Forecast errors can be larger than usual during periods of economic volatility and heightened uncertainty. The confidence intervals presented in this Statement capture historical forecast errors from 1998-99 onwards. They do not capture the potential forecast errors due to factors which have not occurred during the historical period of analysis, such as an event of the scale of the COVID-19 pandemic.

The pandemic is still evolving and the outlook remains highly uncertain. The range of possible outcomes for GDP and unemployment is considerably wider than normal. There is a substantially increased likelihood that the economic and fiscal outcomes will fall outside of the typical confidence intervals presented in this Statement. A further domestic outbreak of COVID-19 or, alternatively, the sudden emergence of a widely available vaccine, are both possible significant events that could cause forecasting errors to be larger than normal. Similarly, the confidence intervals do not capture potential future policy responses that could be implemented to contain the spread of the virus and to support households and businesses.

Macroeconomic forecasting performance

The Government's macroeconomic forecasts are prepared using a range of modelling techniques including macroeconomic models, spreadsheet analysis and accounting frameworks. These are augmented by survey data, business liaison, professional opinion and judgment.

Real GDP forecasts

Real GDP forecasts factor in a number of assumptions, including exchange rates, interest rates and commodity prices. The forecasts also incorporate judgments about how developments in one part of the economy affect other parts and how the domestic

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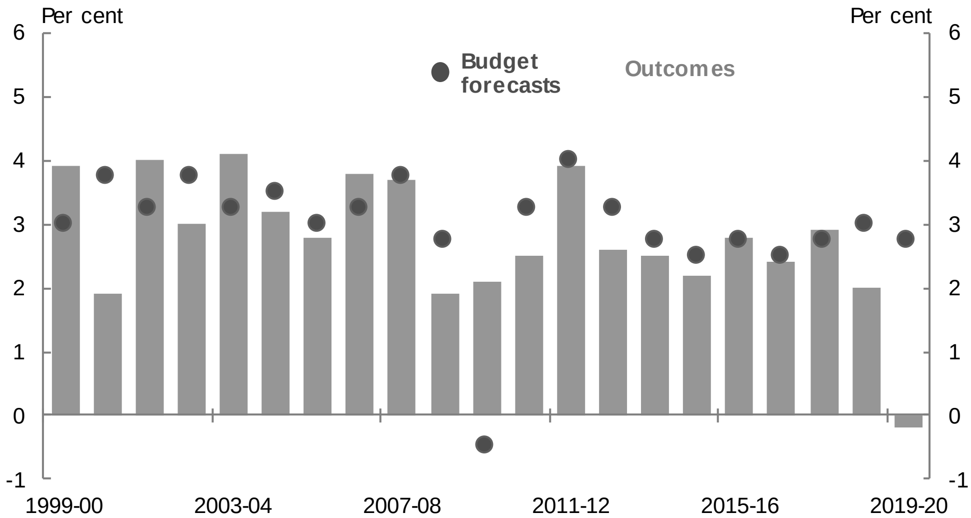
1 The assumptions behind the confidence intervals presented are based on the methodology presented in the Treasury Working Paper *Estimates of Uncertainty around Budget Forecasts*. As in the paper, it is assumed that forecast errors are normally distributed with zero mean and the past errors are representative of the future errors. The atypical timing of the 2020-21 Budget means that the confidence intervals in this Statement are likely to understate the forecast errors.

economy is affected by events in the international economy. The accuracy of the forecasts is influenced by the extent to which the assumptions and judgments underpinning them prove to be correct, and also the reliability of the economic relationships embodied in the macroeconomic models used to produce them. For example, a renewed outbreak of COVID-19 necessitating the reimposition of severe containment measures would be expected to result in lower-than-forecast GDP growth.

Over the past 20 years, the Budget forecasts of real GDP growth have exhibited little evidence of bias. While forecasts of real GDP growth were less accurate in the years during and immediately after the Global Financial Crisis (GFC), forecast errors have been smaller in recent years with the notable exception of 2019-20, reflecting the onset of the COVID-19 pandemic (Chart 1).

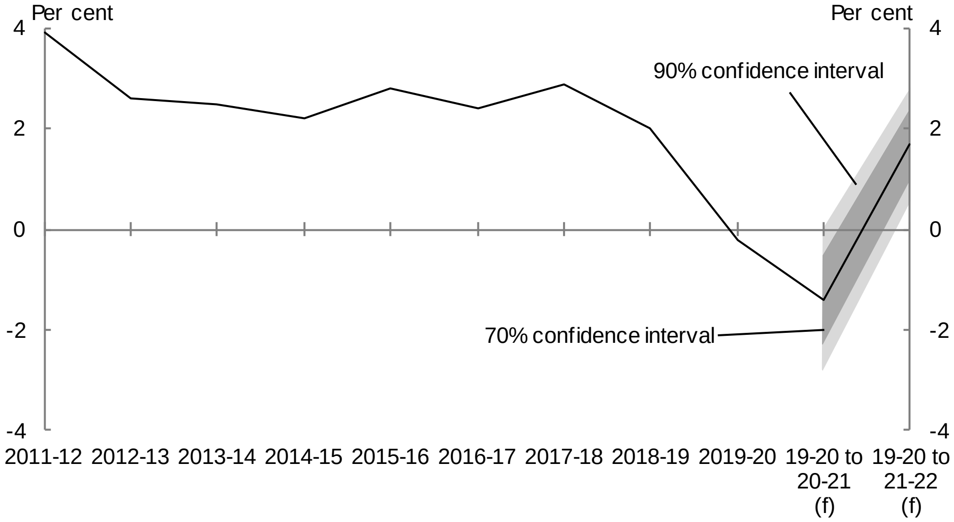
Chart 1: Budget forecasts of real GDP growth



Note: Outcome is as published in the June quarter 2020 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS Australian National Accounts: National Income, Expenditure and Product and Budget papers.

Chart 2 shows that the average annualised growth rate of real GDP in the two years to 2021-22 is expected to be around 1¾ per cent, with the 70 per cent confidence interval ranging from 1 per cent to 2½ per cent. In other words, if forecast errors are similar to those made over recent years, there is a 70 per cent probability that the growth rate will lie in this range. Alternatively, the 90 per cent confidence interval ranges from ½ of a per cent to 2¾ per cent. Given the heightened level of uncertainty in the current environment, the presented confidence intervals are likely to understate the range of possible outcomes, as the 2019-20 forecast error in Chart 1 illustrates.

Chart 2: Confidence intervals around real GDP growth rate forecasts



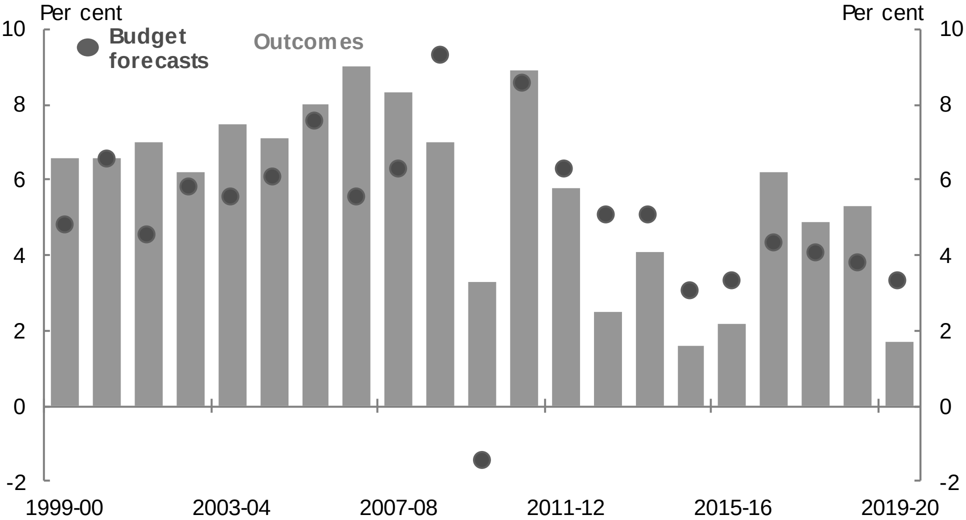
Note: The central line shows the outcomes and the 2020-21 Budget forecasts. Annual growth rates are reported for the outcomes. Average annualised growth rates from 2019-20 are reported for 2020-21 onwards. Confidence intervals are based on the root mean squared errors (RMSEs) of MYEFO forecasts from 1998-99 onwards, with outcomes based on June quarter 2020 National Accounts data. (f) are forecasts.
Source: ABS Australian National Accounts: National Income, Expenditure and Product, Budget papers and Treasury.

Nominal GDP forecasts

Compared with real GDP forecasts, nominal GDP forecasts are subject to additional sources of uncertainty from the evolution of domestic prices and wages, prices of imported goods and world prices for Australia's exports, including commodities.

Since the early 2000s, nominal GDP forecast errors have reflected the greater difficulties in predicting movements in global commodity prices (Chart 3). From 2011-12 to 2015-16, as key commodity prices were falling from their record highs, larger-than-expected falls in the terms of trade meant that nominal GDP growth was overestimated. However, the outcomes for nominal GDP growth from 2016-17 to 2018-19 were higher than forecast in the Budgets for those years. This primarily reflected stronger-than-expected commodity prices.

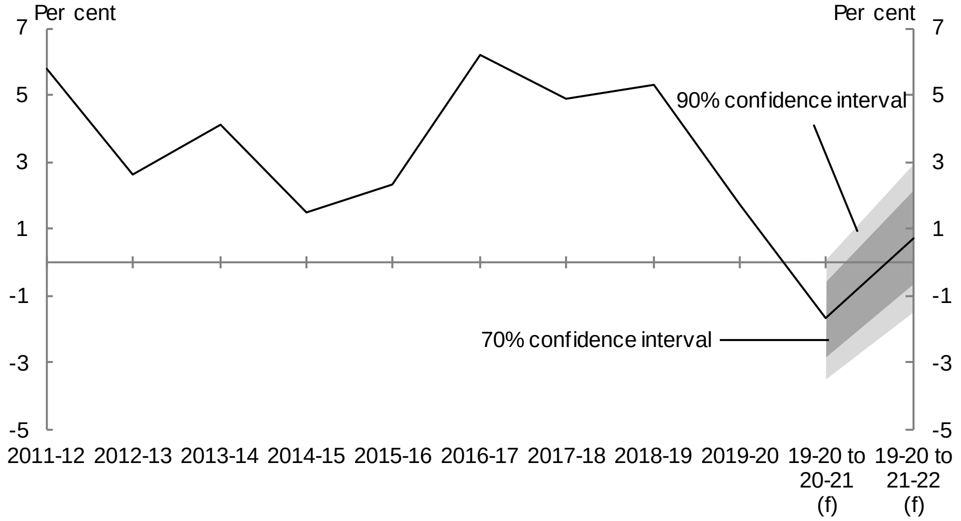
Chart 3: Budget forecasts of nominal GDP growth



Note: Outcome is as published in the June quarter 2020 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS Australian National Accounts: National Income, Expenditure and Product and Budget papers.

The confidence intervals around the nominal GDP forecasts are wider than those around the real GDP forecasts, reflecting the combined uncertainty around the outlook for real GDP and the outlook for domestic prices and commodity prices. Average annualised growth in nominal GDP in the two years to 2021-22 is expected to be around ¾ of a per cent, with the 70 per cent confidence interval ranging from –¾ of a per cent to 2 per cent. Alternatively, the 90 per cent confidence interval ranges from –1½ per cent to 3 per cent (Chart 4). Given the heightened level of uncertainty in the current environment, the presented confidence intervals are likely to understate the range of possible outcomes.

Chart 4: Confidence intervals around nominal GDP growth rate forecasts



Note: See note to Chart 2.
Source: ABS Australian National Accounts: National Income, Expenditure and Product, Budget papers and Treasury.

Fiscal forecasting performance

The fiscal estimates contained in the Budget are based on, and are highly sensitive to, economic and demographic forecasts as well as estimates of the impact of spending and revenue measures. Changes to the economic or demographic forecasts will affect forecasts for receipts and payments. As such, this will have a direct impact on the profile of the underlying cash balance. Even small movements in the economic outlook can result in large changes to receipts and payments.

Receipts

Tax receipts estimates are generally prepared using a 'base plus growth' methodology. The last known outcome is used as the base to which estimated growth rates are applied, resulting in tax receipts estimates for the current and future years. Estimates for the current year also incorporate recent trends in tax collections.

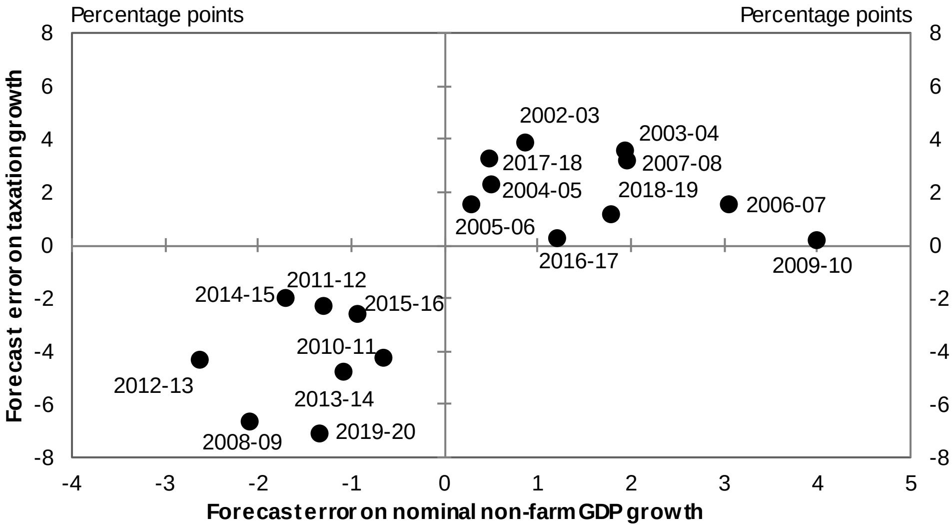
Most of the indirect heads of revenue, such as GST and fuel excise, are forecast by mapping the growth rate of an appropriate economic parameter directly to the tax growth rate in the relevant head of revenue. A number of income taxes also involve determining whether this tax will be paid in the year the income is earned, such as for pay-as-you-go withholding tax, or in future years, such as for individuals' refunds.

Over the past two decades, tax receipts forecasts have both under-predicted and over-predicted outcomes, with the average absolute forecasting error for tax receipts growth being 3.3 percentage points. However, given the unanticipated nature of economic downturns, Budget year forecasts prior to the GFC and COVID-19 pandemic over-predicted final outcomes by a significantly larger margin.

Different downturns have different impacts on forecasting errors for a number of reasons. The introduction of instalments has meant the deterioration in tax receipts after a shock is more sudden. The size of the forecasting error following a shock is also influenced by the proportion of the year affected by the shock. The early 1990s recession and the GFC both had negative impacts on real GDP growth in the December quarter of 1990 and 2008 respectively. While the COVID-19 pandemic has been more economically disruptive, the negative impacts were largely felt in only the final four months of 2019-20.

Generally, there is a strong correlation between the accuracy of the forecasts of nominal GDP and its components and the forecasts for tax receipts. On average, economic forecast errors will be magnified in receipts forecast errors, owing to the progressive nature of personal income tax. Chart 5 plots the forecast errors for nominal non-farm GDP against the errors for tax receipts excluding capital gains tax (CGT). It shows that where there has been an underestimate of nominal non-farm GDP growth, tax receipts tend to be underestimated and vice versa.

Chart 5: Budget forecast errors on nominal non-farm GDP growth and taxation receipts growth (excluding CGT)



Source: ABS Australian National Accounts: National Income, Expenditure and Product, Budget papers and Treasury.

Looking at the medium term, tax receipts projections are also impacted by long-term economic trends and tax policy settings. External structural pressures and systemic design factors in Australia's tax system could result in tax receipts from many sources as a proportion of GDP declining over this extended time period.

One driver of this decline could be a continuation of consumer preferences away from highly taxed items such as fuel, alcohol and tobacco. GST revenue growth could also weaken if consumption favours non-GST items.

The extent to which the tax system is resilient to these and other factors is highly uncertain and not independent of tax rate differentials, both domestically and internationally.

Tax receipts (excluding CGT) declined by 3.2 per cent in 2019-20, compared with forecast growth of 4.0 per cent growth at the time of the 2019-20 Budget. Although a very different shock, this forecasting error is of a similar order of magnitude to 2008-09 following the GFC, where growth in tax receipts (excluding CGT) was 6.7 percentage points lower than forecast in the 2008-09 Budget. Non-economic factors are more likely to contribute to forecasting errors following an economic shock. This partly reflects structural elements of the tax system that cause any divergence in the relationship between tax receipts and the broader economy to become more pronounced following an economic shock. For example, increased volatility in asset markets following an economic shock increases the difficulty of estimating the accumulation of capital losses and when these losses will be utilised to offset future gains.

The largest contributor to the forecast error for 2019-20 is company tax, which was $14.1 billion (14.3 per cent) lower than expected in the 2019-20 Budget. This was driven in large part by the impact of health restrictions, which have reduced taxable incomes. Receipts from GST were $7.1 billion (10.5 per cent) below the 2019-20 Budget estimate, reflecting lower-than-expected household consumption and private dwelling investment. There has been an increase in unpaid debt in 2019-20, in part due to payment deferrals offered to businesses experiencing financial hardship. Individuals and other withholding taxation was $6.9 billion (3.0 per cent) below the forecast of the 2019-20 Budget, largely reflecting the COVID-19 pandemic resulting in weaker collections from small, medium and large withholders in line with a deterioration in labour market conditions and lodgement and payment deferrals granted by the ATO. These and other variations are discussed further in *Budget Statement 5: Revenue*.

Discussions of earlier years' forecast performance can be found in previous budgets.

Chart 6 shows confidence intervals around the forecasts for receipts (excluding GST[2] and including Future Fund earnings). Confidence intervals constructed around the receipts forecasts exclude historical variations caused by subsequent policy decisions as these do not relate to forecasting errors. These intervals take into account errors caused by parameter and other variations in isolation.

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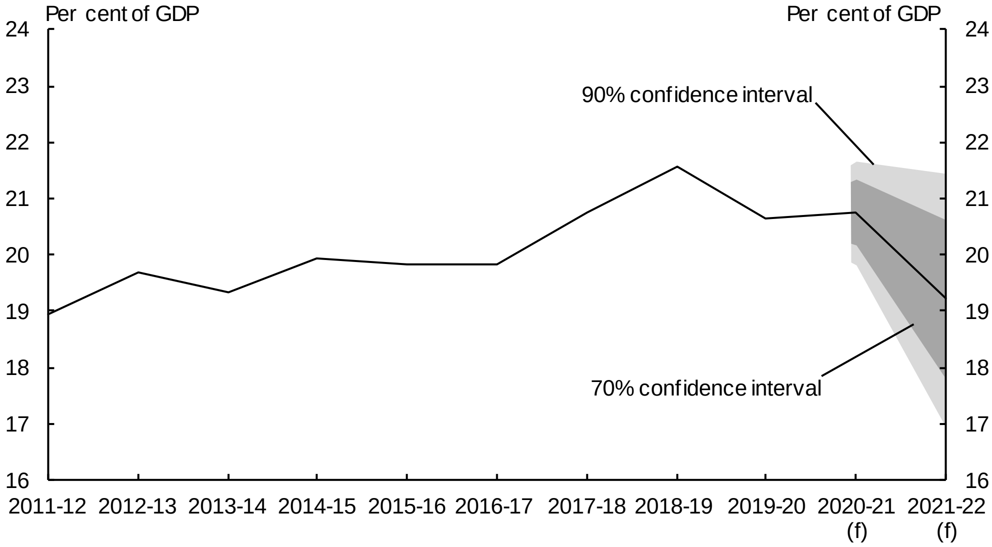
2 GST was not reported as a Commonwealth tax in budget documents prior to the 2008-09 Budget. As a result, GST receipts data have been removed from historical receipts and payments data to abstract from any error associated with this change in accounting treatment.

Chart 6: Confidence intervals around receipts forecasts[(a)]



(a) Excludes GST and includes Future Fund earnings
Note: The central line shows the outcomes and the 2020-21 Budget point estimate forecasts. Confidence intervals use RMSEs for MYEFO forecasts from the 1998-99 MYEFO onwards. (f) are forecasts.
Source: Budget papers and Treasury.

The chart shows that there is considerable uncertainty around receipts forecasts and that this uncertainty increases as the forecast horizon lengthens. It suggests that in 2020-21, the width of the 70 per cent confidence interval for the 2020-21 Budget receipts forecast is approximately 1.2 per cent of GDP ($23 billion) and the 90 per cent confidence interval is approximately 1.9 per cent of GDP ($36 billion). Given the heightened level of uncertainty in the current economic environment, and the unprecedented nature of COVID-19, the presented confidence intervals are very likely to understate the degree of uncertainty around receipts forecasts.

Payments

The Government's payments estimates are predominantly prepared by agencies that comprise the Australian Government general government sector. An assessment of payments forecasting performance is not included in this Statement. However, historical errors have been incorporated in estimated confidence intervals.

Chart 7 shows confidence intervals around payments forecasts (excluding GST). As with receipts estimates, historical variations caused by subsequent policy decisions are excluded as these do not relate to forecasting errors. Payments estimates include the public debt interest impact of policy decisions and a provision for contingencies.[3]

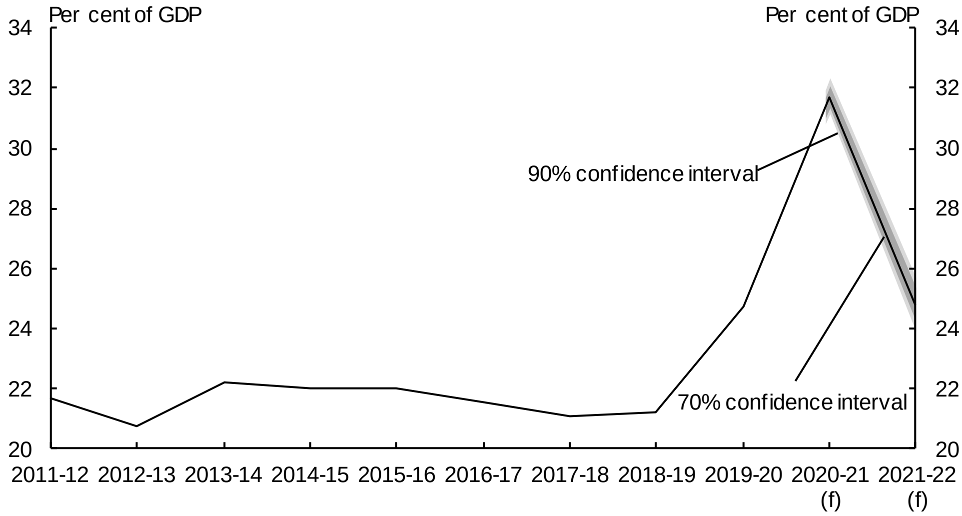
3 The impacts of past policy decisions on historical public debt interest through time cannot be readily identified or estimated. For this reason, no adjustment has been made to exclude these impacts from the analysis.

In 2020-21, the width of the 70 per cent confidence interval for the 2020-21 Budget payments forecast is approximately 0.7 per cent of GDP ($14 billion) and the 90 per cent confidence interval is approximately 1.2 per cent of GDP ($23 billion).

Given the heightened level of uncertainty in the current economic environment, the presented confidence intervals are likely to understate the degree of uncertainty around payments forecasts. The Government has provided significant support to the economy to address the impacts of the COVID-19 pandemic and automatic stabilisers have operated to provide additional support, hence payments as a share of GDP has increased significantly over 2019-20 and 2020-21.

Demand-driven programs, such as payments to individuals for social welfare, form the bulk of government expenditure. Forecasts of payments associated with a number of these government programs depend on forecasts of economic conditions. Due to the uncertainty in the economic forecasts as a result of the COVID-19 pandemic, Chart 7 is likely to understate the range of possible outcomes for payments.

Chart 7: Confidence intervals around payments forecasts[(a)]



(a) Excludes GST
Note: See note to Chart 6.
Source: Budget papers and Treasury.

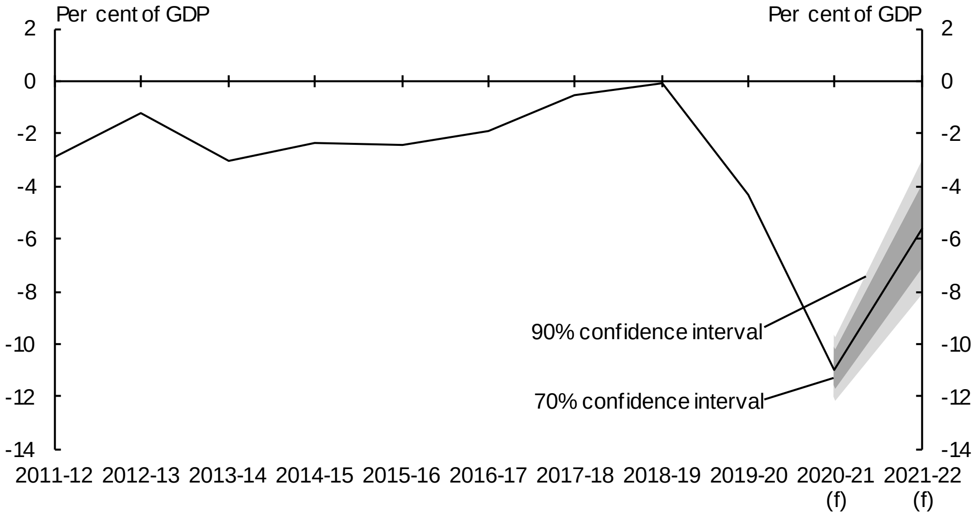
Underlying cash balance

The underlying cash balance estimates are sensitive to the same forecast errors that affect estimates of receipts and payments. Confidence interval analysis shows that there is considerable uncertainty around the underlying cash balance forecasts (Chart 8).

In 2020-21, the width of the 70 per cent confidence interval for the 2020-21 Budget underlying cash balance forecast is approximately 1.5 per cent of GDP ($29 billion) and the 90 per cent confidence interval is approximately 2.4 per cent of GDP ($47 billion). In line with receipts forecasts, uncertainty increases over the estimates period. As noted

above, the confidence intervals are likely to understate the level of uncertainty around the fiscal forecasts in the current environment.

Chart 8: Confidence intervals around the underlying cash balance forecasts



Note: See note to Chart 6.
Source: Budget papers and Treasury.

Sensitivity and scenario analysis

Sensitivity and scenario analysis provides an alternative way to examine the range of potential economic and fiscal outcomes.

Small movements in economic forecasts or projections can improve or worsen the underlying cash balance, depending on the impacts on payments and receipts. This in turn can drive changes in gross and net debt. Consideration of particular scenarios and sensitivity analysis demonstrates the potential impact of these changes. The analysis presented considers the impact of changes to the economic outlook over the period to 2030-31.

As discussed earlier in this Statement, there is a greater level of uncertainty around the fiscal aggregates due to the COVID-19 pandemic. The scale of the shock is unprecedented in most Australians' lifetimes. As such, it is difficult to estimate the impact that the COVID-19 pandemic will have on Australia's economy in the short and medium term. It is at least as difficult to estimate the resultant effects on the fiscal aggregates. The scenarios in this section aim to shed some light on the range of outcomes that could arise under different economic assumptions.

Non-rural commodity exports play a key role in Australia's economy. Scenario 1 explores the sensitivity of fiscal aggregates over the near term to alternative paths for non-rural commodity export prices and the terms of trade.

Productivity is a major driver of economic growth, but is subject to volatility. Scenarios 2 and 3 illustrate the sensitivity of fiscal aggregates over the medium term to changes in productivity assumptions.

Australia is currently experiencing historically low interest rates on government debt. Scenarios 4 and 5 illustrate the sensitivity of fiscal aggregates over the medium term to a faster or slower return to long-run government debt interest rates (yields).

Sensitivity analysis over the near term

The following scenario provides an indication of the sensitivity of receipts, payments and the underlying cash balance to changes in the economic outlook over the period to 2021-22.

Scenario 1: Alternative pathways for the terms of trade

World prices of non-rural commodities are affected by many factors and are subject to significant uncertainty. This scenario considers the consequences of a 10 per cent movement in world prices of non-rural commodity exports from 2020-21 relative to the 2020-21 Budget forecast levels. The scenario assumes that the exchange rate will appreciate in response to an increase in non-rural commodity prices. The appreciation in the exchange rate reduces consumer price inflation and dampens the impacts of the commodity price increase on nominal GDP.

Such a price rise for non-rural commodity exports is consistent with a rise in the terms of trade of 4¼ per cent and an increase in nominal GDP of ¼ of a per cent by 2021-22. The change in the terms of trade due to a 10 per cent movement in non-rural commodity export prices varies over time in line with the share of those exports in total exports. The sensitivity analysis shows the flow-on effects to GDP, the labour market and prices. The impacts in Table 1 are stylised and refer to percentage deviations from the Budget forecast levels due to a permanent rise in non-rural commodity prices. The impacts on the economy of a permanent fall in these prices of the same magnitude would be broadly symmetrical.

Table 1: Illustrative impact of a permanent 10 per cent rise in non-rural commodity prices (per cent deviation from the Budget level)

	Impact after 1 year (2020-21)	Impact after 2 years (2021-22)
	per cent	per cent
Real GDP	0	0
GDP deflator	1/2	1/4
Nominal GDP	1/2	1/4
Employment	0	0
Nominal wages	0	- 1/4
CPI	- 1/2	- 3/4
Company profits	2	2 1/2
Nominal household consumption	- 1/2	- 1/2

Under this scenario, the increase in non-rural commodity export prices leads directly to higher overall output prices (as measured by the GDP deflator). However, the appreciation in the exchange rate reduces import prices and flows through to lower

consumer price inflation. Lower consumer price inflation partially offsets the increase in output prices from the higher non-rural commodity export prices. While nominal household consumption and nominal wages are lower, lower consumer price inflation increases consumer real wages and leads to higher real household consumption. Mining investment and export volumes also increase in response to higher non-rural commodity prices. On the other hand, the appreciation in the exchange rate leads to higher import volumes and lower non-mining exports. The small increase in output associated with higher commodity prices is concentrated in the capital intensive mining industry. The shift in output to a less labour intensive industry results in slightly lower employment.

On the receipts side, an increase in non-rural commodity export prices increases company tax receipts as the increase in export income increases company profits. The impact on company tax is larger in 2021-22, partly owing to lags in tax collections and a larger impact on company profits in the second year of the scenario. This is partially offset by lower domestic prices resulting in lower nominal wages and lower nominal consumption and, consequently, reductions in individuals' income taxes and indirect taxes.

In practice, the extent of these offsetting effects on tax receipts would depend on the monetary policy response of the central bank to lower growth in domestic prices. In general, the central bank would offset lower growth in domestic prices and hence the effect on tax receipts would be small. However, under current circumstances, there is limited scope for monetary policy to offset price effects.

On the payments side, a significant proportion of government expenditure is partially indexed to movements in costs (as reflected in various price and wage indicators). Many forms of expenditure, in particular income support payments, are also driven by the number of beneficiaries.

The overall estimated expenditure on income support payments (including pensions, unemployment benefits and other allowances) increases in both years. This reflects a small increase in the number of unemployment benefit recipients as a result of output growth shifting to the less labour intensive mining industry. The increase in spending on unemployment benefits is partially offset by decreased expenditure on pensions and allowances reflecting slower growth in benefit payment rates, resulting from slightly lower inflation. At the same time, other payments linked to inflation are also lower in line with the weaker growth in prices.

Given these assumptions, the overall impact of the increase in the terms of trade is an improvement in the underlying cash balance of around $0.5 billion in 2020-21 and around $1.2 billion in 2021-22 (see Table 2). Broadly opposite impacts would be expected for a fall in the terms of trade of the same magnitude.

Table 2: Illustrative sensitivity of the budget balance to a permanent 10 per cent rise in non-rural commodity prices

	2020-21 $b	2021-22 $b
Receipts		
Individuals and other withholding taxes	-0.4	-1.7
Superannuation fund taxes	0.0	-0.1
Company tax	1.2	2.9
Goods and services tax	-0.2	-0.2
Excise and customs duty	0.0	0.0
Other receipts	0.0	0.0
Total receipts	**0.5**	**0.9**
Payments		
Income support	-0.2	-0.2
Other payments	0.0	0.3
Goods and services tax	0.2	0.2
Total payments	**0.0**	**0.3**
Public debt interest	0.0	0.0
Underlying cash balance impact	**0.5**	**1.2**

Estimated impacts fall within the 70 per cent confidence intervals for years 2020-21 and 2021-22, as shown in Charts 6 to 8.
Note: Numbers may not sum due to rounding. A positive number denotes an improvement to the Underlying Cash Balance.

The specific impact of a US$10 per tonne free-on-board (FOB) higher or lower iron ore price is outlined in Box 1.

Box 1: Sensitivity analysis of iron ore price movements

The impacts of a **US$10 per tonne FOB movement in iron ore prices** is set out in Table A. This is based on the sensitivity analysis presented in Scenario 1, and is calibrated to take into account the share of iron ore in the value of total exports, which can change over time. An increase of US$10 per tonne FOB in the iron ore price results in an increase in nominal GDP of around $4.4 billion in 2020-21 and around $3.4 billion in 2021-22. Similarly, a decrease of US$10 per tonne FOB in the iron ore price results in a decrease in nominal GDP of an equivalent amount.

Table A: Sensitivity analysis of a US$10 per tonne movement in iron ore prices

	US$10/tonne FOB[(a)] fall		US$10/tonne FOB increase	
	2020-21	2021-22	2020-21	2021-22
Nominal GDP ($billion)	-4.4	-3.4	4.4	3.4
Tax receipts ($billion)	-0.3	-0.5	0.3	0.5

(a) Prices are presented in free-on-board (FOB) terms which exclude the cost of freight.

Sensitivity analysis of the direct impacts of earlier and later falls in the iron ore spot price assumption is in *Budget Statement 2: Economic Outlook*.

Sensitivity analysis over the medium term

The medium-term fiscal projection period is the seven years after the Budget forward estimates. The fiscal projections are underpinned by economic projections of key economic variables. The methodology underpinning the medium-term economic projections is outlined in *Budget Statement 2: Economic Outlook*.

A range of simplifying assumptions are used to project government receipts and payments in the medium-term fiscal projections. The methodology underpinning the medium-term fiscal projections is outlined in *Budget Statement 3: Fiscal Strategy and Outlook.* Since the medium-term fiscal projections use the Budget forward estimates as a base, any uncertainties in that base can be amplified over the longer time frame.

Scenarios 2 and 3: Alternative pathways for productivity growth

The COVID-19 pandemic is likely to have lasting economic effects through multiple channels, and the impacts on productivity are highly uncertain. Scenarios 2 and 3 examine the impacts of higher and lower productivity growth (Chart 9).

Labour productivity growth depends on both trends in underlying productivity[4] and the capital stock. The underlying trend in productivity is assumed to converge to 1.5 per cent per annum over a 10-year period, which is the average growth in labour productivity over the past 30 years.

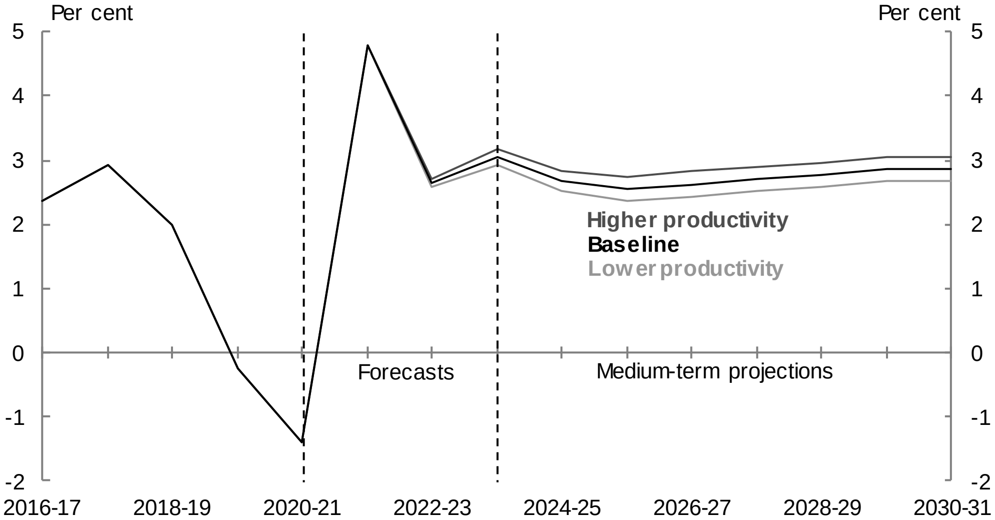
Scenario 2 assumes that underlying productivity growth is ¼ of a percentage point higher than the Budget projections in each year from 2022-23 onwards. This does not immediately translate into a ¼ of a percentage point increase in labour productivity, due to the time it takes for the capital stock to adjust.

Under Scenario 2, the level of real GDP is around 1½ per cent higher by the end of the projection period in 2030-31 compared with the Budget projections. Higher labour productivity growth flows through to higher wages. Nominal GDP increases around 2¼ per cent, reflecting an increase in prices relative to wages per unit of output (nominal unit labour costs), resulting from a lower terms of trade and exchange rate.

Scenario 3 assumes that underlying productivity growth is ¼ of a percentage point lower than the Budget projections in each year from 2022-23 onwards. This has broadly opposite effects on the economy compared with Scenario 2.

4 Underlying productivity is otherwise known as labour-augmenting technical change.

Chart 9: Impact of higher and lower productivity on real GDP growth



Source ABS Australian National Accounts: National Income, Expenditure and Product and Treasury.

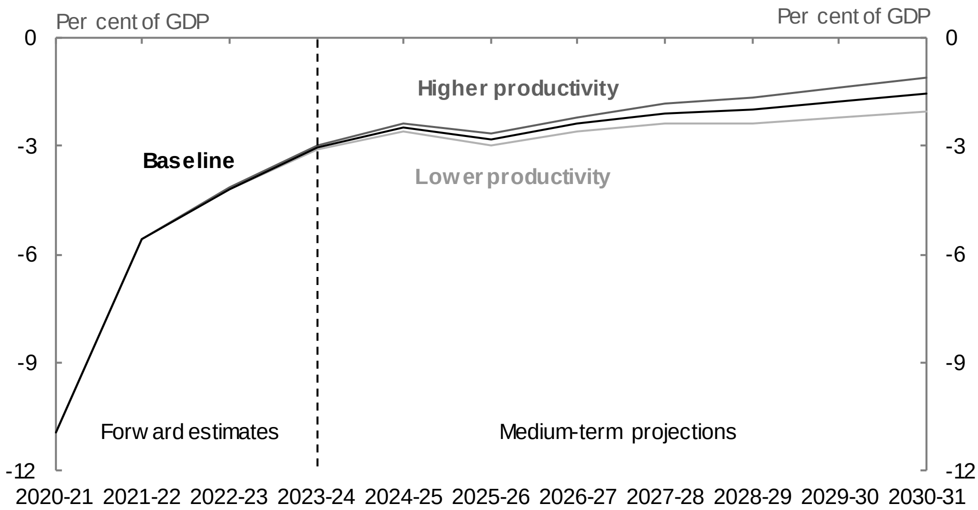
Under Scenario 2, higher nominal GDP means higher projected tax receipts over the 10-year period to 2030-31. Payments are projected to be slightly higher due to higher prices and wages resulting in an increase in indexation rates for some payment programs.

Overall, the higher productivity growth in Scenario 2 has a positive impact on the underlying cash balance (Chart 10). In this scenario, the underlying cash balance is 0.5 percentage points of GDP higher at the end of the medium term, compared with the baseline projection.

The variation in the underlying cash balance has implications for the level of government debt. Under Scenario 2, gross debt, measured by the face value of Australian Government Securities (AGS) on issue, is lower, reflecting lower government borrowing associated with the stronger budget position. Public debt interest payments are also lower, further contributing to the improvement in the underlying cash balance.

The lower productivity growth in Scenario 3 has a negative impact on the underlying cash balance (Chart 10). Receipts are lower across the period and payments slightly lower. In this scenario, the underlying cash balance is 0.5 percentage points of GDP lower than the baseline projection at the end of the medium term. Gross debt and public debt interest payments are higher than in the baseline projection.

Chart 10: Illustrative impact of higher or lower productivity growth on the underlying cash balance



Source: Treasury projections.

Scenarios 4 and 5: Alternative pathways for yields

The underlying cash balance estimates and projections are sensitive to changes in yields on AGS. Changes to assumed pathways for yields will impact estimates and projections of gross debt, net debt and public debt interest; as well as the returns on Australian Government investments.

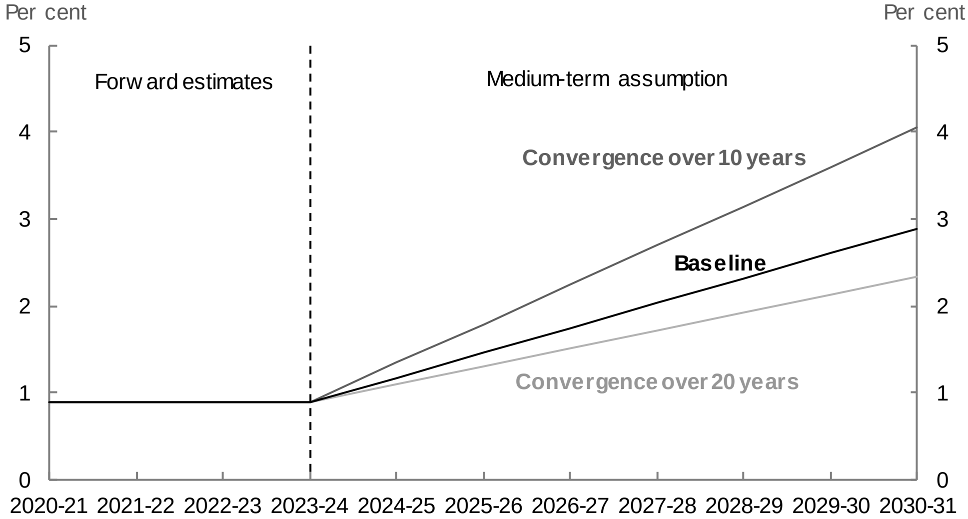
The yield assumption framework has been revised at the 2020-21 Budget. For discussion on the impact and rationale for changing the yield assumption, see Box 2 in *Budget Statement 7: Debt Statement*.

Under the assumption used in the 2020-21 Budget projections, yields remain fixed over the Budget year and the three forward estimates years at the levels observed immediately prior to the Budget update. The 10-year bond yield converges from the start of the medium term to a long-run 10-year bond yield of around 5 per cent, consistent with long-run nominal GDP growth. The timeframe for this transition is 15 years.

Scenarios 4 and 5 examine the consequences of transitioning over 10 and 20 years respectively (Chart 11). In Scenario 4, the 10-year bond yield reaches 4.0 per cent by the end of the medium term, compared to 2.9 per cent in the baseline projection. In Scenario 5, the 10-year bond yield reaches 2.3 per cent by the end of the medium term.

The yield transitions in Scenarios 4 and 5 are not symmetrical. This is because under the baseline scenario, yields are assumed to increase by around 25 basis points (one-fifteenth) each year to reach the long-run yield assumption. Under Scenario 4, yields are assumed to increase by around 40 basis points (one-tenth) each year. Under Scenario 5, yields are assumed to increase by around 20 basis points (one-twentieth) each year.

Chart 11: Transition path of the 10-year bond yield compared to Budget baseline



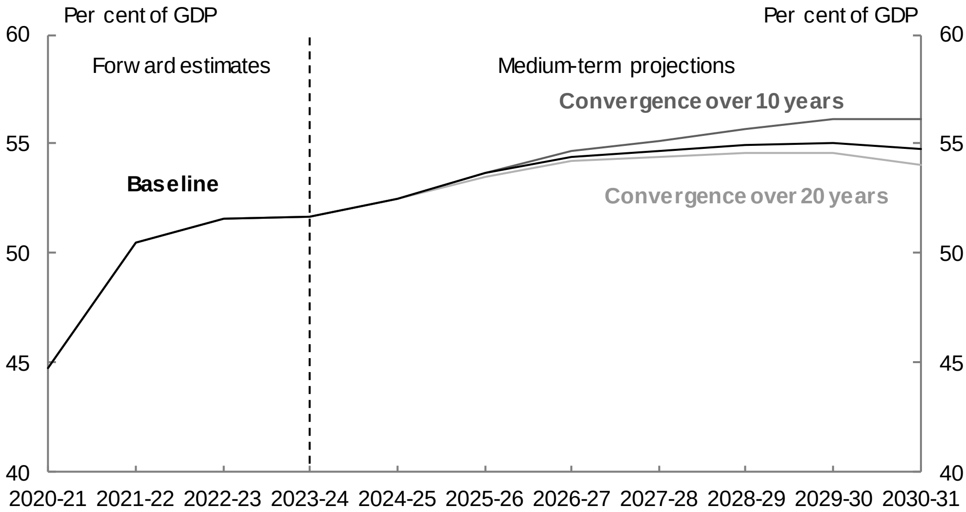
Source: Treasury.

Yields on AGS affect both government income and expenses. Yields affect the amount of public debt interest the Government has to pay on its borrowings, but also have an impact on projections of the receipts the Government earns on its investments.

Compared with the Budget projections, a faster-than-assumed transition to the long-run yield curve results in an insignificant deterioration in the underlying cash balance of around 0.1 percentage points of GDP by 2030-31. If yields transitioned to the long-run yield curve over 10 years, gross debt would increase by a projected $44.3 billion (1.4 percentage points of GDP) compared to the Budget baseline by 2030-31 (Chart 12).

Conversely, a slower-than-assumed transition results in an insignificant improvement to the underlying cash balance over the medium term. By 2030-31, the underlying cash balance remains broadly consistent with the baseline. However, cumulative small improvements to the underlying cash balance are projected to reduce gross debt by $22.5 billion (0.7 percentage points of GDP) by 2030-31 (Chart 12).

Chart 12: Impact of alternative yield assumption on gross debt projections



Source: Treasury projections.

Statement 9: Statement of Risks

A range of factors may influence the actual budget outcome in future years. The *Charter of Budget Honesty Act 1998* requires these factors to be disclosed in a statement of risks in each Budget and Mid-Year Economic and Fiscal Outlook. This statement outlines general fiscal risks, specific contingent liabilities and specific contingent assets that may affect the budget balances.

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Statement 9: Statement of Risks

The forward estimates of revenue and expenses in the 2020-21 Budget incorporate assumptions and judgments based on the best information available at the time of publication, together with a range of economic assumptions and other forecasts.

Events that could affect fiscal outcomes include:

- changes in economic and other parameters, particularly global economic developments and the evolution of the COVID-19 pandemic in Australia and overseas
- matters not included in the fiscal forecasts because of uncertainty about their timing, magnitude or likelihood
- the realisation of contingent liabilities or assets.

Risks to the Budget — overview

The revenue and expense estimates published in the 2020-21 Budget are based on a range of economic and other parameters. These parameters have been updated to reflect the most recent information on the outlook for the domestic and international economies as detailed in *Budget Statement 2: Economic Outlook.* This outlook has been greatly affected by the course of the COVID-19 pandemic in Australia and overseas. However, the pandemic is still evolving and the outlook remains highly uncertain. The range of possible outcomes for GDP and unemployment in particular is substantially wider than normal. This translates into a higher than usual degree of uncertainty for the fiscal estimates.

A significant portion of Government expenditure is for demand driven programs. Outcomes for these programs could differ from the estimates due to changes in economic forecasts. For example, higher than forecast levels of unemployment will mean expenditure for related social services payments, including allowances, will also be higher.

In addition, revenue forecasting relies heavily on the observed historical relationships between the economy, tax bases and tax revenues. Such relationships may shift over time as the economy changes, particularly following a once-in-a-century shock, presenting a further risk to the estimates. For example, the ability of entities to utilise tax losses to offset future profits is expected to continue to pose a challenge when estimating the profile for tax receipts over the next few years. Revenue forecasts also incorporate costings for new policies that typically involve a degree of uncertainty.

The estimates of revenue are subject to a number of general risks that can affect taxation collections. These general pressures include failure of the tax system to keep pace with changes in the business environment, tax avoidance, court decisions and Australian Taxation Office rulings, and the outcome of compliance programs. These pressures may result in a shift in the composition of taxation collected from the various tax bases and/or a change in the size of the tax base. The estimates of revenue are subject to a number of general risks that can affect taxation collections. These general pressures include failure of the tax system to keep pace with changes in the business environment, tax avoidance, court decisions and Australian Taxation Office rulings, and the outcome of compliance programs. These pressures may result in a shift in the composition of taxation collected from the various tax bases and/or a change in the size of the tax base.

The Budget is subject to a number of contingent liabilities. A large number of these contingent liabilities reflect indemnities, including those relating to the Department of Defence, the Future Fund Management Agency and Future Fund Board of Guardians, and the Reserve Bank of Australia.

The Australian Government has also issued a number of guarantees, such as those relating to guarantee schemes for the banking and financial sector, payments by the Export Finance Australia and the superannuation liabilities of the Commonwealth Bank prior to its sale to the private sector.

Other significant contingent liabilities relate to uncalled capital subscriptions and credit facilities to international financial institutions and legal cases concerning the Australian Government. The Government has robust and conservative strategies in place to reduce its potential exposure to these contingent liabilities.

The forward estimates in the Budget include the impact of all policy decisions, including those that remain unlegislated. Where legislation is not passed in time to enable commencement of the measure at the anticipated commencement date, the legislation is passed with amendments to the original decision, or is rejected, there is a risk of a variation to the fiscal position outlined in the Budget.

There have been several changes to both the quantifiable and unquantifiable risks since the *2019-20 Mid-Year Economic and Fiscal Outlook (MYEFO)*. General revaluations of securities and deposits have led to certain risks such as the Guarantee of State and Territory Borrowings and the Financial Claims Scheme being modified. Several new risk items have also arisen since the MYEFO.

Contingent liabilities, contingent assets and other fiscal risks with a possible impact on the forward estimates greater than $20 million in any one year, or $50 million over the forward estimates period, are listed in this Statement. Some financial information in the text may not add to totals due to rounding. Information on contingent liabilities and contingent assets is also provided in the Australian Government's annual consolidated financial statements and in the annual financial statements of departments and other Government entities.

Table 1 outlines how fiscal risks, assets and liabilities and contingent assets and liabilities are disclosed in the Budget.

Table 1: Disclosure of fiscal risks, contingent assets and contingent liabilities, and assets and liabilities in the Budget Papers

Category	Type[(a)]	Disclosure
Fiscal Risks	Fiscal Risks	Statement of Risks
Contingent assets and contingent liabilities	Significant contingent assets and liabilities considered remote	Statement of Risks
	Unquantifiable contingent assets and liabilities that are improbable but not remote	Statement of Risks
	Quantifiable contingent assets and liabilities that are improbable but not remote	Statement of Risks
	Contingent assets and liabilities excluded on the basis of immateriality[(b)]	None
Assets and liabilities	Assets and liabilities that are probable and can be reliably measured	Balance sheet[(c)(d)]
	Assets and liabilities that are probable but have an uncertain timing or amount (provisions)	Balance sheet

(a) Items that are described as probable have a 50 per cent or higher chance of occurrence.
(b) Only risks with a possible impact on the forward estimates greater than $20 million in any one year, or $50 million over the forward estimates period, are considered material and disclosed in this Statement.
(c) Unearned income from charging guarantee fees is shown as a liability in the balance sheet.
(d) Additional disclosure to increase transparency on loans over $200 million is included in the Statement of Risks.

Economic and other parameters

Changes in economic parameters represent a risk to the estimates included in the Budget, particularly in the current circumstances. The key assumptions underpinning the economic forecasts and risks around these are discussed in *Budget Statement 2: Economic Outlook. Budget Statement 8: Forecasting Performance and Scenario Analysis* examines the impact on receipts and payments of altering some of the key economic assumptions underlying the Budget estimates.

Details of fiscal risks and contingent liabilities

New, revised or unchanged fiscal risks, contingent assets and contingent liabilities with a possible impact on the forward estimates greater than $20 million in any one year, or $50 million over the forward estimates period, are described below and summarised in Table 2. Information on both contingent assets and contingent liabilities is also provided in the annual financial statements of departments, Corporate and Non-corporate Commonwealth entities and Commonwealth companies.

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2019-20 Budget and the 2019-20 MYEFO[(a)]

Fiscal risks		Status
Agriculture, Water and the Environment		
Murray Darling Basin Reform — risk assignment		Unchanged
Remediation of Jabiru Township		New
Attorney-General's		
Departure of the ACT Government from the Comcare workers' compensation scheme		Unchanged
Defence		
Major operations of the Australian Defence Force in 2020-21		Unchanged
Education, Skills and Employment		
Recovery of inappropriately claimed VET FEE-HELP payments from VET providers		Modified
Foreign Affairs and Trade		
Export Finance Australia — National Interest Account (NIA)		Modified
Health		
Hosting budget for the FIFA Women's World Cup 2023		Removed
Home Affairs		
Regional Processing Arrangements		Unchanged
Industry, Science, Energy and Resources		
Snowy Hydro Limited — Snowy 2.0		Modified
Risks to External Revenue		Removed
Infrastructure, Transport, Regional Development and Communications		
Inland Rail — Delivery		Modified
Social Services		
Income Compliance Program Litigation		New
COVID-19 Social Welfare Debt Pause		New
Veterans' Affairs		
Defence Service Home Insurance Scheme		New
Significant but remote contingencies	**Category (b)(c)(d)**	**Status**
Defence		
ADI Limited — Officers' and Directors' Indemnities	Indemnity	Unchanged
Litigation cases	Other	Unchanged
Remote contingencies	Other	Modified
Finance		
Australian Naval Infrastructure Pty Ltd — Termination of the Equity Funding Agreement	Other	Unchanged
Foreign Affairs and Trade		
World Food Program — Charter Flights Indemnity	Indemnity	New
Home Affairs		
Indemnities relating to the Air Security Officer program	Indemnity	Unchanged
Industry, Science, Energy and Resources		
Snowy Hydro Limited — Board Members' Indemnity	Indemnity	Unchanged
Snowy Hydro Limited — Termination of the Equity Subscription Agreement	Other	Unchanged
Liability for damages caused by space and certain high power rocket activities	Other	Unchanged
Operations and Maintenance of the Northern Endeavour and Associated Infrastructure	Indemnity	New

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2019-20 Budget and 2019-20 MYEFO[(a)] (continued)

Significant but remote contingencies (continued)	Category (b)(c)(d)	Status
Infrastructure, Transport, Regional Development and Communications		
NBN Co Limited — Equity Agreement	Guarantee	Modified
Optus Financial Guarantee	Guarantee	Modified
Telstra Financial Guarantee	Guarantee	Modified
Maritime Industry Finance Company Limited — Board Members' Indemnity	Indemnity	Unchanged
Moorebank Intermodal Company Limited — Termination of the Equity Funding Agreement	Indemnity	Unchanged
Moorebank Intermodal Project — Glenfield Waste Site Easement	Indemnity	Unchanged
WSA Co Limited — Board Members' Indemnities	Indemnity	Unchanged
Inland Rail — Termination of the Equity Financing Agreement	Other	Unchanged
Tripartite deeds relating to the sale of federal leased airports	Other	Unchanged
WSA Co Limited — Termination of the Equity Subscription Agreement	Other	Unchanged
Treasury		
Asbestos Injuries Compensation Fund	Guarantee	Unchanged
Cumulative guarantee of states and territories' transitional GST payments	Guarantee	Removed
Financial Claims Scheme	Guarantee	Modified
Guarantee for the National Housing Finance and Investment Corporation	Guarantee	Modified
Guarantee of state and territory borrowing	Guarantee	Modified
Guarantees under the *Commonwealth Bank Sale Act 1995*	Guarantee	Modified
Reserve Bank of Australia — Guarantee	Guarantee	Modified
Contingent liabilities — unquantifiable	**Category (b)(c)(d)**	**Status**
Agriculture, Water and the Environment		
Commonwealth liabilities in respect of matching payments to industries for research and development contributions	Other	Unchanged
Emergency pest and disease response arrangements	Other	Modified
Attorney-General's		
Native Title costs	Other	Unchanged
Defence		
Cockatoo Island Dockyard	Indemnity	Unchanged
Land decontamination, site restoration and decommissioning of Defence assets	Other	Unchanged
Non-remote contingent liabilities	Other	Modified
Finance		
ASC Pty Ltd — Directors' and Executives Indemnities	Indemnity	Unchanged
ASC Pty Ltd — Guarantee of Indemnity from ASC in favour of ASC Shipbuilding Pty Limited	Indemnity	Unchanged
Commonwealth Superannuation Corporation — Immunity and Indemnity	Indemnity	Unchanged
Former Commonwealth Site, Fishermans Bend, Victoria	Indemnity	Removed
Future Fund Management Agency and Future Fund Board of Guardians — Indemnity	Indemnity	Unchanged
Googong Dam	Indemnity	Unchanged
Indemnities for the Reserve Bank of Australia and private sector banks	Indemnity	Unchanged

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2019-20 Budget and 2019-20 MYEFO[(a)] (continued)

Contingent liabilities — unquantifiable (continued)	Category (b)(c)(d)	Status
Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects	Indemnity	Unchanged
Australian Government domestic property	Other	Modified
Australian Government general insurance fund — Comcover	Other	Unchanged
Australian Naval Infrastructure Pty Ltd — Guarantee in favour of Naval Group Australia	Guarantee	Unchanged
Foreign Affairs and Trade		
Commitment to assist the Pacific, Timor-Leste and Southeast Asia with accessing COVID-19 vaccines	Other	New
Health		
Accommodation Payment Guarantee Scheme	Guarantee	Unchanged
Advanced Purchasing Agreements (APAs) for COVID-19 vaccine candidates	Indemnity	New
Australian Red Cross Society — Indemnities	Indemnity	Modified
Blood and blood products liability cover	Indemnity	Modified
CSL Ltd	Indemnity	Unchanged
Indemnities relating to vaccines	Indemnity	Unchanged
Medical Indemnity Exceptional Claims Scheme	Indemnity	Modified
New South Wales Health Administration Council — Indemnity	Indemnity	Unchanged
Home Affairs		
Garrison, welfare and health services at regional processing countries — liability limit	Indemnity	Unchanged
Immigration detention services by state and territory governments — liability limit	Indemnity	Unchanged
Immigration detention services contract — liability limit	Indemnity	Unchanged
Australian Victims of Terrorism Overseas Payment	Other	Unchanged
Disaster Recovery	Other	Modified
Industry, Science, Energy and Resources		
Snowy Hydro Limited — water releases	Indemnity	Unchanged
Liability for costs incurred in a national liquid fuel emergency	Other	Unchanged
Australian Nuclear Science and Technology Organisation — asbestos contamination	Indemnity	Unchanged
Australian Nuclear Science and Technology Organisation — Indemnity	Indemnity	Unchanged
Former British atomic test site at Maralinga	Indemnity	Unchanged
Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability	Indemnity	Unchanged
Land decontamination, site restoration for CSIRO property	Other	Unchanged
United States Strategic Petroleum Reserve (US SPR) Lease Agreement — Indemnity under certain conditions	Indemnity	New
Infrastructure, Transport, Regional Development and Communications		
NBN Co Limited — Board Members' Insolvency Indemnity	Indemnity	Unchanged
Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory	Indemnity	Unchanged
Moorebank Intermodal Company Limited — Board Members' Indemnity	Indemnity	Modified
Moorebank Intermodal Project — Georges River rail crossing	Indemnity	Unchanged
Service Delivery Arrangement Indemnities — External Territories and Jervis Bay Territory	Indemnity	Modified
Australian Maritime Safety Authority incident costs	Other	Unchanged
Aviation rescue and firefighting potential per- and poly-fluoroalkyl substances contamination	Other	Modified

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2019-20 Budget and 2019-20 MYEFO[a] (continued)

Contingent liabilities — unquantifiable (continued)	Category (b)(c)(d)	Status
Social Services		
Welfare Integrity	Other	Removed
Treasury		
Terrorism insurance — commercial cover	Guarantee	Unchanged
First Home Loan Deposit Scheme	Other	Unchanged
International Monetary Fund — Poverty Reduction and Growth Trust	Other	New
Indemnities for specialised external advisers during the COVID-19 pandemic	Indemnity	New
Small and Medium Enterprise Guarantee Scheme	Indemnity	New
Contingent assets — unquantifiable	**Category (b)(c)(d)**	**Status**
Defence		
Non-remote contingent assets	Other	Removed
Health		
Legal action seeking compensation	Other	Unchanged
Home Affairs		
Civil penalty proceedings in the Federal Court against Westpac Banking Corporation	Other	Modified
Contingent liabilities — quantifiable	**Category (b)(c)(d)**	**Status**
Agriculture, Water and the Environment		
Low Carbon Australia Limited — Board of Directors' and senior management indemnities	Indemnity	Removed
Attorney-General's		
Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union	Indemnity	Removed
Defence		
Claims against the Department of Defence	Other	Modified
Education, Skills and Employment		
ParentsNext program	Other	Unchanged
Foreign Affairs and Trade		
Export Finance Australia	Guarantee	Modified
Industry, Science, Energy and Resources		
Underwriting of Transmission Projects	Guarantee	New
Infrastructure, Transport, Regional Development and Communications		
Australian Government contribution to the East West Link project	Other	Unchanged
Australian Government contribution to the Perth Freight Link project	Other	Unchanged
Prime Minister and Cabinet		
Indigenous Land and Sea Corporation — Debt Guarantee	Guarantee	Modified
Treasury		
Australian Taxation Office — tax disputes	Other	Modified
International financial institutions — uncalled capital subscriptions	Other	Modified
International Monetary Fund	Other	Modified

(a) Detailed descriptions of these items are in the following text.
(b) Guarantees — a guarantee is where one party promises to be responsible for the debt or performance obligations of another party should that party default in some way.
(c) Indemnities — an indemnity is a legally binding promise whereby a party undertakes to accept the risk of loss or damage another party may suffer.
(d) Other — contingent liabilities and assets which are not guarantees or indemnities.

Fiscal risks

Fiscal risks comprise general developments or specific events that may affect the fiscal outlook. Some developments or events raise the possibility of a fiscal impact. In other cases, the likelihood of a fiscal impact may be reasonably certain, but will not be included in the forward estimates because the timing or magnitude is not known.

There are measures which impact on the Budget aggregates that remain subject to the legislative process. If legislation is not passed by Parliament as proposed, this may affect the estimates of the Budget.

Many agencies dependent on external revenue have seen reduced revenue as a result of the COVID-19 pandemic restrictions (such as for activities funded through charging arrangements associated with international movement of passengers and goods). Estimates included in the Budget for these agencies reflect the best currently available information. However, the outcomes will be dependent on the timing of the recovery from the pandemic and relaxation in restrictions both within Australia and internationally. These risks cannot be readily quantified at this stage.

There is also a risk that further Government expenditure may be required to respond to the direct impacts of the pandemic. The need for, and scale of, this potential expenditure would depend on the nature of further possible outbreaks and how effectively they are contained.

There are also a number of Royal Commissions expected to report over the forward estimates period in relation to National Natural Disaster Arrangements; Violence, Abuse, Neglect and Exploitation of People with Disability; and Aged Care Quality and Safety. Additional Government funding may be required to address the recommendations of these Commissions.

Specific fiscal risks to the Budget and forward estimates are detailed below.

Agriculture, Water and the Environment

Murray Darling Basin Reform — risk assignment

The Australian Government has committed to bridge the gap between the Baseline Diversion Limit (BDL) and the Sustainable Diversion Limits (SDLs) in the Basin Plan through water recovery. On 1 July 2019, the SDLs took effect. The *Water Act 2007* provides a risk assignment framework whereby entitlement holders with reductions in water allocations, or changes in the reliability of water allocations (where the gap has not been bridged and an accredited water resource plan is in place), may be eligible for a payment from the Commonwealth.

The total cost (if any) of the operation of the risk assignment framework is not able to be quantified at this time and remains a fiscal risk until the gap between the BDL and SDLs is fully bridged.

Remediation of Jabiru Township

The Director of National Parks (DNP) holds a revisionary interest under a lease for the town of Jabiru expiring in 2021. The make good and rehabilitation arrangements of Jabiru is being negotiated between the Director of National Parks, Northern Territory Government, Energy Resources of Australia and other stakeholders. Remediation work includes renewal of essential services, removal of hazardous materials and chemicals, ensuring structures are compliant to Building Codes and ecological remediation. Expenditure for the remediation work will be shared across all parties to the arrangements.

The Government agreed to provide $35.0 million toward the remediation of contaminants in Jabiru as part of its *Securing Tourism and Jobs in Kakadu* measure in the 2019-20 Budget.

Attorney-General's

Departure of the ACT Government from the Comcare workers' compensation scheme

On 1 March 2019, the ACT Government departed the Comcare premium scheme following the decision by the Safety, Rehabilitation and Compensation Commission to grant the ACT Government a licence to self-insure its workers' compensation liabilities under the *Safety, Rehabilitation and Compensation Act 1988.*

The licence conditions transfer all workers' compensation liabilities for ACT Government employees, with a date of injury on or after 1 July 1989, from the Commonwealth to the ACT Government. Funding will be transferred to the ACT Government for outstanding costs relating to claims with a date of injury before 1 March 2019 pending an exit valuation of claims liabilities. The payment will have an impact on the underlying cash balance.

The Commonwealth has made an initial payment of $76.2 million in 2018-19, which has been included in the estimates, but the total costs of these arrangements are yet to be determined.

Defence

Major operations of the Australian Defence Force in 2020-21

The 2020-21 estimates for the Department of Defence include the cost of major operations of the Australian Defence Force in 2020-21 in Afghanistan, Iraq, Syria, and the broader Middle East region, as well as the protection of Australia's borders and offshore maritime interests. Funding for major Defence operations is considered and provisioned on a year-by-year basis. The forward estimates at the 2020-21 Budget include additional funding for these major operations in the 2020-21 year, but do not provide for further extensions. The Department of Defence will likely have additional funding requirements for major operations beyond 30 June 2021.

Education, Skills and Employment

Recovery of inappropriately claimed VET FEE-HELP payments from VET providers

The Australian Government is undertaking compliance action, including court action, to recover VET FEE-HELP payments from VET providers where loans were issued inappropriately to students by providers. The Government has legislated a remedy, which commenced 1 January 2019, for VET FEE–HELP students who incurred debts under the VET FEE-HELP loan scheme following inappropriate conduct by VET providers. The Government will undertake recovery activities against VET providers in cases where the student was ineligible for a VET FEE-HELP loan.

There are potential financial risks to the Commonwealth in the event that it is unable to recover payments from VET providers where they have closed or entered into administration or liquidation.

The financial risk to the Commonwealth is currently unquantifiable as it depends on the receipt and assessment of applications from students, as well as outcomes from the Government's investigations into VET providers' conduct.

Foreign Affairs and Trade

Export Finance Australia — National Interest Account (NIA)

There are three financing facilities under the NIA:

The Australian Infrastructure Financing Facility for the Pacific (AIFFP) became operational on 1 July 2019. The AIFFP will provide up to $1.5 billion in long-term loans to support high priority infrastructure development in Pacific countries and Timor-Leste. The facility will have no financial implications until drawn on. As at 30 June 2020, there were no loans issued under the AIFFP.

The Defence Export Facility (DEF) was established to grow Australia's defence exports by helping overcome difficulties in accessing private sector finance. The DEF has a maximum aggregate exposure of US$3.0 billion. As at 30 June 2020, three loans under the DEF had been agreed for a total maximum value of $213 million, of which $99.1 million had been drawn down. These three loans are reflected in the Budget estimates.

The COVID-19 Export Capital Facility (COVID-19 Facility) was announced on 15 April 2020 with a maximum aggregate exposure of $500 million. As at 30 June 2020, the COVID-19 Facility has agreed to provide finance for a total maximum value of $15.4 million, of which $6.4 million had been drawn down. These loans are reflected in the Budget estimates.

Home Affairs

Regional Processing Arrangements

The Australian Government supports the Governments of Nauru and Papua New Guinea (PNG) to provide support and services to transferees residing in Nauru and PNG under regional processing arrangements. Any significant changes in the number of transferees, the arrangements that underpin the provision of those services, relevant litigation or legislative changes, may incur a cost or generate cost reductions which are unquantifiable at this time.

Industry, Science, Energy and Resources

Snowy Hydro Limited — Snowy 2.0

The Australian Government has committed up to $1.38 billion in additional equity to Snowy Hydro Limited to support the delivery of the Snowy 2.0 pumped hydro project. Snowy 2.0 will improve the security and reliability of the National Electricity Market by providing reliable, dispatchable power and large-scale energy storage. Project risks include construction delays, cost pressures, and cash flow forecasts. These pressures are being mitigated through close management of the delivery program and engagement with key stakeholders.

Infrastructure, Transport, Regional Development and Communications

Inland Rail — Delivery

The Australian Government has committed to deliver the Inland Rail project through the Australian Rail Track Corporation (ARTC) to provide a direct, high-performance freight rail corridor between Melbourne and Brisbane, as well as a new freight corridor between Brisbane and Perth (via Parkes).

The ARTC will finance Inland Rail with a combination of Commonwealth equity investment, private debt and internal cash flows. A Public Private Partnership will be established to design, build, finance and maintain the complex Toowoomba to Kagaru (Brisbane) section of the project, including major tunnelling works.

Project costs will not be finalised until reference design, planning, environmental approvals, and procurements are completed. Project risks include securing jurisdictional support, construction delays, cost pressures, and revenues realised. These pressures are being mitigated through close management of the delivery program and engagement with key stakeholders and jurisdictions.

Social Services

Income Compliance Program Litigation

Aspects of the Income Compliance Program are part of a class action that is before the Federal Court. Costs associated with this litigation are not quantifiable until the matter is settled.

COVID-19 Social Welfare Debt Pause

The Government announced a temporary pause on certain social welfare debt raising and recovery activities from 3 April 2020 in response to the COVID-19 pandemic. The initial six month pause has been extended until 30 October 2020 and the need for the pause will be assessed on a monthly basis.

There is a potential financial risk as the debt pause may reduce the value of debts raised and the amount of funds recovered by Services Australia in 2020-21. The financial risk is currently unquantifiable as it depends on the arrangements for lifting the debt pause.

Veterans' Affairs

Defence Service Homes Insurance Scheme

The Defence Service Homes Insurance Scheme (the Scheme) was established in 1919 under the *Defence Service Homes Act 1918*. The Scheme offers personal insurance products to eligible serving Australian Defence Force members, veterans and widow(er)s. It underwrites home building insurance and offers a range of personal insurance products (such as contents and motor vehicle insurance) underwritten by QBE Insurance (Australia) Limited.

The Scheme is funded by premiums collected from policyholders, commissions from QBE and returns on investments. Due to the nature of insurance, the Scheme's financial performance can be volatile from year to year. Last year saw a significant increase in claims due to extreme weather events (including bushfires, hailstorms and floods).

The Scheme manages the volatility of the insurance cycle by holding an appropriate level of capital (i.e. reserves) consistent with the obligations placed on insurers through the relevant regulatory regime. Nevertheless, there remains a small but unquantifiable risk that additional Government contributions could be required should these reserves be insufficient to cover the liabilities of the scheme.

Contingent liabilities and assets

Contingent liabilities and contingent assets of the Australian Government are listed below by portfolio. These contingent liabilities and assets are a specific category of fiscal risks. Broadly, they represent possible costs or gains to the Australian Government arising from past events or decisions which will be confirmed or otherwise by the outcome of future events that are not within the Government's control.

Contingencies reported in this Statement include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort, together with those contingencies considered remote. These contingencies are in addition to the liabilities and assets already recognised in the consolidated financial statements of the Australian Government general government sector in *Budget Statement 10: Australian Government Budget Financial Statements*.

In general, information on contingent liabilities and assets is based on information provided by Australian Government departments and entities and is current to 30 June 2020. In some cases, other dates are used and those are noted in the relevant section.

Significant but remote contingencies

Defence

ADI Limited — Officers' and Directors' Indemnities

Under the sale agreements for ADI Limited, the Australian Government agreed to indemnify the Directors, officers and employees of ADI Limited for claims and legal costs associated with assistance related to the sale of the Australian Government's shares in the company. The Australian Government has also provided an indemnity to ADI Limited for uninsured losses relating to specific heads of claims.

Litigation cases

The Department of Defence (Defence) is involved in a wide range of litigation and other claims for compensation and/or damages that may result in litigation where the matters are not able to be finalised by use of negotiation. The litigation includes common law liability claims, including for personal injury and property damage. The litigation also includes active prosecutions against Defence by Comcare in relation to alleged breaches of the *Work Health and Safety Act 2011*. A number of claims have been received seeking compensation for loss or damage arising from Defence use of aqueous film forming foam (AFFF) that contained man-made per- and poly-fluoroalkyl substances (PFAS). A number of claims have also been received following reviews into Australian Defence Force and Defence culture. There is also potential for claims to arise from the disposal of assets to third parties where such assets contain hazardous materials or components that have the potential to cause injury.

Remote contingencies

As at 30 June 2020, the Department of Defence carried 152 instances of quantifiable remote contingent liabilities valued at $4.5 billion and 1,326 instances of unquantifiable remote contingent liabilities.

These significant remote contingent liabilities are restricted in nature and details are not given due to reasons of commercial in confidence and/or national security.

Finance

Australian Naval Infrastructure Pty Ltd — Termination of the Equity Funding Agreement

The Australian Government will provide sufficient funding to enable Australian Naval Infrastructure Pty Ltd (ANI) to meet the direct costs of termination that may be incurred by ANI in the event that the Commonwealth terminates the Equity Funding Agreement between the Commonwealth and ANI.

Foreign Affairs and Trade

World Food Program — Charter Flights Indemnity

The Australian Government provided the World Food Program (WFP) an indemnity with regard to charter flights for the repatriation of Department of Foreign Affairs and Trade personnel at isolated international missions impacted by COVID-19.

The indemnity applies to aircraft delay costs, loss of baggage, injury to those on-board the aircraft and exposure to aircraft damage to the extent that any loss is not covered by existing insurance policies held by the WFP. The risk of the indemnity being called upon is remote but could result in a liability to the Australian Government of up to $30 million in 2020-21.

Home Affairs

Indemnities relating to the Air Security Officer program

The Australian Government has indemnity agreements with Australian airlines that agree to allow Air Security Officers on board their aircraft. The indemnity agreements limit the Government's exposure to a maximum of $2 billion per incident. The indemnity applies to the extent that any loss is not covered by existing relevant insurance policies held by the airline(s) and only applies where the airline(s) can prove that an action on the part of an Air Security Officer under or in connection with the Air Security Officer program caused a loss.

Industry, Science, Energy and Resources

Snowy Hydro Limited — Board Members' Indemnity

The Australian Government has provided an indemnity for each of the Directors of Snowy Hydro Limited (SHL) to protect them against certain claims relating to their employment as Directors. Until the indemnity agreements are varied or ceased, they will remain as contingent and unquantifiable liabilities.

Snowy Hydro Limited — Termination of the Equity Subscription Agreement

The Australian Government will provide sufficient funding to cover costs and liabilities incurred by Snowy Hydro Limited (SHL) for delivery of Snowy 2.0, capped to the total remaining undrawn equity, in the event that the Commonwealth terminates the Equity Subscription Agreement between the Commonwealth and SHL.

Liability for damages caused by space and certain high power rocket activities

Under the United Nations Convention on International Liability for Damage Caused by Space Objects, the Australian Government may be liable to pay compensation for damage caused to nationals of other countries by space objects launched from Australia, or by Australian nationals overseas. For activities approved under the *Space (Launches and Returns) Act 2018* (the Act), the Government also accepts liability for damage suffered by Australian nationals, to a maximum value of $3 billion above an insured level.

To address this risk, in order to have a space or high power rocket activity approved under the Act, the responsible party is required to insure against, or take financial responsibility for, damage to third parties. The amount of insurance or financial responsibility is capped at $100 million. The Act provides for amounts lower than $100 million depending on the risk profile of the activity. A maximum probable loss methodology is also available to calculate the amount of insurance or financial responsibility.

Operations and Maintenance of the Northern Endeavour and Associated Infrastructure

The Government has engaged Upstream Production Solutions (Upstream PS) as Operator of the Northern Endeavour Floating Production Storage and Offtake facility (FPSO). As part of the contract the Government has provided Upstream PS with indemnities against loss of or damage to property or personnel. The Government has also provided indemnity against any damage to the associated subsea and subsurface infrastructure or any oil spill related to the FPSO. This liability is unlimited.

The Government has obtained Protection and Indemnity, Facility Damage and Control of Well Insurance and also taken out membership with oil spill response agencies. These will limit the Government's risk and financial exposure.

The risk of an incident is remote as the FPSO is being maintained in 'lighthouse' mode with safety critical maintenance carried out, limited oil in storage and no further oil production taking place.

Infrastructure, Transport, Regional Development and Communications

NBN Co Limited — Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with NBN Co Limited (NBN Co). Whilst this agreement ended in June 2019, the Commonwealth retains obligations to meet NBN Co's costs arising from a termination of the roll-out. As at 30 June 2020, NBN Co's termination liabilities were estimated at $18.0 billion.

Optus Financial Guarantee

The Australian Government has provided a guarantee in respect of NBN Co's financial obligations to Optus Networks Pty Ltd, Optus Internet Pty Limited, Optus Vision Media Pty Limited and SingTel Optus Pty Ltd (collectively, Optus) under the Optus HFC Subscriber Agreement (the Agreement). An amended version of the Agreement came into effect on 22 January 2019. The Guarantee continues to apply to that Agreement. The Agreement extends for the period of the National Broadband Network roll-out in Optus Hybrid Fibre Coaxial areas. The Australian Government is only liable in the event NBN Co does not pay an amount when due under the Optus Agreement. As at 30 June 2020, NBN Co had generated liabilities covered by the Optus Agreement which are estimated at an amount less than $220.0 million. There is a low risk that a claim would be made under the Guarantee. The Guarantee will terminate in 2021.

Telstra Financial Guarantee

The Australian Government has provided Telstra Corporation Limited (Telstra) a guarantee in respect of NBN Co's financial obligations under the Definitive Agreements. The Agreements were amended on 14 December 2014. The Guarantee was not amended at that time and it continues in force in accordance with its terms in respect of the amended Definitive Agreements. The liabilities under the Definitive Agreements between Telstra and NBN Co arise progressively during the roll-out of the National Broadband Network as Telstra's infrastructure is accessed and Telstra's customers are disconnected from its copper and Hybrid Fibre Coaxial cable networks. The Australian Government is only liable in the event NBN Co does not pay an amount when due under the Definitive Agreements. As at 30 June 2020, NBN Co had generated liabilities covered by the Guarantee estimated at $10.8 billion. The Guarantee will terminate when NBN Co achieves specified credit ratings for a period of two continuous years and either:

- the company is capitalised by the Commonwealth to the agreed amount or
- the Communications Minister declares, under the *National Broadband Network Companies Act 2011*, that, in his or her opinion, the National Broadband Network should be treated as built and fully operational.

Maritime Industry Finance Company Limited — Board Members' Indemnity

Indemnities for Maritime Industry Finance Company Limited (MIFCO) board members were provided to protect them against civil claims relating to their employment and conduct as Directors. MIFCO was placed into voluntary liquidation in November 2006 and was deregistered on 24 April 2008. The indemnity is not time limited and continues even though the company has been liquidated. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.

Moorebank Intermodal Company Limited — Termination of the Equity Funding Agreement

The Australian Government has provided an indemnity to cover all costs and liabilities that may be incurred by Moorebank Intermodal Company Limited (MIC) in the event that the Commonwealth terminates the Equity Funding Agreement between the Commonwealth and MIC.

Moorebank Intermodal Project — Glenfield Waste Site Easement

The Australian Government has provided an indemnity to cover all costs and liabilities that may be incurred by the Grantor (the private sector owner of the Glenfield Waste Site) of any easement for the rail spur going across the Glenfield Waste Site, to the extent such costs or liabilities are caused or contributed to by the Commonwealth or its agents.

WSA Co Limited — Board Members' Indemnities

The Australian Government has provided an indemnity for each of the Directors of WSA Co Limited (WSA Co) to protect them against certain claims relating to their employment as Directors. Unless the indemnity agreements are varied or brought to an end, they cease to apply from the date the Commonwealth has fully satisfied its obligations to subscribe for equity in WSA Co pursuant to the WSA Co Equity Subscription Agreement.

Inland Rail — Termination of the Equity Financing Agreement

The Australian Government will provide sufficient funding to cover all costs and liabilities incurred by the Australian Rail Track Corporation (ARTC) for delivery of Inland Rail in the event that the Commonwealth terminates the Equity Financing Agreement between the Commonwealth and the ARTC.

Tripartite deeds relating to the sale of federal leased airports

The tripartite deeds between the Australian Government, the airport lessee company and financiers, amend airport (head) leases to provide for limited step-in rights for financiers in circumstances where the Australian Government terminates the head lease to enable the financiers to correct the circumstances that triggered such a termination event. The tripartite deeds may require the Australian Government to pay financiers compensation as a result of terminating the (head) lease, once all Australian Government costs have been recovered. The Australian Government's contingent liabilities are considered to be unquantifiable and remote.

WSA Co Limited — Termination of the Equity Subscription Agreement

The Australian Government is required to cover all costs and liabilities that may be incurred by WSA Co in the event that the Commonwealth terminates the Equity Subscription Agreement between the Commonwealth and WSA Co.

Treasury

Asbestos Injuries Compensation Fund

In February 2016, the Commonwealth agreed to assume one-third of the default risk associated with a $320 million New South Wales (NSW) Government loan to the Asbestos Injuries Compensation Fund (AICF), contingent on all states and territories agreeing to assume the remaining default risk. States and territories agreed to assume the remaining default risk in the period following the publication of the 2016-17 Budget.

The AICF provides compensation to Australian asbestos disease related claims against former subsidiaries of the James Hardie Group, and is funded on an ongoing basis through contributions from the James Hardie Group. NSW provided a $320 million loan facility in 2010 to enable AICF to continue to pay compensation as lump sums, rather than on an instalment basis.

Financial Claims Scheme

The Financial Claims Scheme provides depositors of authorised deposit-taking institutions (ADIs) and claimants of general insurers with timely access to their funds in the event of a financial institution failure.

Under the *Banking Act 1959*, the scheme provides a mechanism for making payments to depositors under the Australian Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account holder per ADI. It is estimated that deposits eligible for coverage under the Financial Claims Scheme were $1.0 trillion at 30 June 2020, compared to an estimated $930 billion at 30 June 2019. This reflects overall deposit growth in the financial system due to fiscal policies that were implemented to support the economy during COVID-19 and consumer caution resulting in an increase in the savings rate.

Under the *Insurance Act 1973,* the scheme provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer. It is not possible to estimate the amounts of any eventual payments that may be required in relation to general insurance claims.

In the very unlikely event of an ADI or general insurer failure, any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. If there was a shortfall in the amount recovered through the liquidation of the failed institution, a levy could be applied to the relevant industry to recover the difference between the amount expended and the amount recovered in the liquidation.

The Australian Prudential Regulation Authority (APRA) is responsible for administration of the Financial Claims Scheme. Under the Financial Claims Scheme, any payments to account holders with eligible protected accounts or eligible claimants would be made from APRA's Financial Claims Scheme Special Account. Under the legislation, upon activation, up to $20 billion per institution would be available to meet Financial Claims Scheme payments and up to $100 million for administration costs per institution.

Guarantee for the National Housing Finance and Investment Corporation

The Australian Government guarantees the due payment of money payable by the National Housing Finance and Investment Corporation (NHFIC) to anybody other than the Government.

The NHFIC Board must not allow NHFIC to enter into a transaction that would result in the total guaranteed liabilities of the NHFIC, and any outstanding amount which NHFIC has borrowed from the Government, to exceed $2 billion unless approved by the Government.

Guarantee of state and territory borrowing

The Australian Government announced on 25 March 2009 that a voluntary, temporary guarantee would be put in place over state and territory borrowing. The Guarantee of state and territory borrowing commenced on 24 July 2009 and closed on 31 December 2010. New South Wales and Queensland were the only states that chose to participate in the Guarantee.

Securities covered by the Guarantee will continue to be guaranteed until these securities either mature or are bought back and extinguished by the issuer.

The expected liability under the Guarantee is remote and unquantifiable. Australian Government expenditure would arise under the Guarantee only in the unlikely event that a state failed to meet its obligations with respect to a commitment that was subject to the Guarantee and the Guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant state at a future date. The impact on the Government's budget would depend upon the extent of the default and the state's ability to meet the Government's claim.

As at 30 June 2020, the face value of state and territory borrowings covered by the Guarantee was $1.3 billion, down from $1.4 billion at 31 October 2019.

Guarantees under the *Commonwealth Bank Sale Act 1995*

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government has guaranteed various superannuation and other liabilities: $144.9 million is attributable to liabilities of the Commonwealth Bank of Australia, as at 30 June 2020; and $4.7 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 30 June 2020.

Reserve Bank of Australia — Guarantee

The Australian Government guarantees the liabilities of the Reserve Bank of Australia, measured as the Bank's total liabilities excluding capital, reserves, and Australian Government deposits. The major component of the Bank's liabilities is Australian banknotes on issue. As at 30 June 2020, banknotes on issue amount to $90.1 billion, and the total Guarantee is $169.7 billion.

Contingent liabilities — unquantifiable

Agriculture, Water and the Environment

Commonwealth liabilities in respect of matching payments to industries for research and development contributions

Under several Acts, the Commonwealth provides matching contributions to encourage expenditure on research and development (R&D) and to increase the competitiveness and sustainability of industries within Australia. Matching contributions on eligible R&D are subject to an annual limit that is calculated based on the determined gross value of production (GVP cap) for the industries. There will be an R&D excess, which can be claimable in future years, where the cumulative R&D expenditure is more than the GVP cap. The Commonwealth's future liability in respect of the matching contributions is contingent on the GVP cap and is therefore unquantifiable.

Emergency pest and disease response arrangements

National emergency response arrangements for animal, plant and environmental pest and disease incursions are largely funded through cost sharing agreements between Australian governments and, where relevant, agricultural industry bodies. Under the terms of the emergency response agreements, the Australian Government is typically liable for 50 per cent of the total government funding for a nationally agreed response to a disease or pest incursion. Funding is provided in the forward estimates for the Australian Government's contribution under the emergency response agreements, which is paid to the relevant state or territory government. This funding is unlikely to be sufficient to meet the costs of a large-scale pest or disease incursion or additional and multiple responses (noting there are currently 14 national cost-shared emergency responses and, until 2026–27, more than half of this funding is allocated to an eradication program for red imported fire ants in Queensland). Governments have agreed to an Aquatic Emergency Animal Disease deed covering aquatic emergency animal diseases and exotic production weeds and will shortly begin final consultation with prospective industry signatories. When these negotiations are finalised, potential liabilities for the Australian Government will be increased.

The Australian Government may provide financial assistance to an industry party by funding its share of an emergency response. These contributions are recovered from the industry over a period of up to 10 years, usually through an emergency response levy. The Australian Government may also contribute bilaterally in situations where an incursion is not covered by a cost-sharing agreement or where the affected industry body/bodies are not party to an emergency response agreement, depending on the circumstances of the incursion.

Attorney-General's

Native Title costs

The Australian Government will likely be liable for any compensation found to be payable under *Native Title Act 1993* in respect of compensable acts for which the Australian Government is responsible. While the High Court's decision in the *Timber Creek* litigation (*Northern Territory v Griffiths et al* [2019] HCA 7) provides guidance on the principles for calculating compensation under the Native Title Act, the Australian Government's liability cannot be quantified owing to uncertainty about the number and effect of compensable acts and the value of Native Title affected by those acts.

Defence

Cockatoo Island Dockyard

On 13 October 2001, Cockatoo Island Dockyard (CODOCK) commenced proceedings against the Australian Government (Department of Defence) in the New South Wales (NSW) Supreme Court seeking full reimbursement from the Australian Government for personal injury claims costs incurred by CODOCK after 31 October 1995 in relation to asbestos exposure. Following decisions in the NSW Supreme Court on 17 December 2004 and 4 February 2005, and the NSW Court of Appeal on 23 November 2006, CODOCK was awarded a complete indemnity from the Australian Government for its uninsured exposure to asbestos damages claims, plus profit of 7.5 per cent. Defence continues to manage reimbursement of claims costs incurred by CODOCK.

Land decontamination, site restoration and decommissioning of Defence assets

The Department of Defence has made a financial provision for the estimated costs involved in restoring, decontaminating and decommissioning where a legal or constructive obligation has arisen. For cases where there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable contingencies.

Non-remote contingent liabilities

The Department of Defence (Defence) has four instances of unquantifiable non-remote contingent liabilities. There is potential for claims to arise from legacy contamination at various Defence locations.

Finance

ASC Pty Ltd — Directors' and Executives' Indemnities

The Australian Government has provided former Directors of the then Australian Submarine Corporation Pty Ltd (now known as ASC Pty Ltd — ASC) with indemnities in relation to any claim against them as a result of complying with the ASC's obligations under the Process Agreement between the Electric Boat Corporation (EBC), the Australian Government and the ASC; any claim against them as a result of complying with the ASC's obligations under the Service Level Agreement between the ASC, the Department of Defence, EBC and Electric Boat Australia; and, any claims and legal costs

arising from the Directors acting in accordance with the Board's tasks and responsibilities, as defined under the indemnity.

The Australian Government has provided Directors and senior executives of ASC with indemnities to mitigate personal risk and provide coverage for legal costs related to any legal proceedings that may arise in relation to the transaction to separate ASC Shipbuilding Pty Limited from ASC.

ASC Pty Ltd — Guarantee of Indemnity from ASC in favour of ASC Shipbuilding Pty Limited

The Australian Government has agreed to provide a guarantee of an indemnity from ASC Pty Ltd (ASC) in favour of ASC Shipbuilding Pty Limited (ASC Shipbuilding).

ASC provided an indemnity in favour of ASC Shipbuilding prior to ASC Shipbuilding being separated from ASC Pty Ltd. This indemnity is intended to cover any liabilities unknown at the time of separation which may arise after separation. The indemnity is time limited to seven years.

The guarantee will only be called on in the event that ASC is no longer owned by the Commonwealth and ASC can no longer meet its obligations under the terms of the indemnity. It is Government policy to retain ASC as a Government Business Enterprise.

Commonwealth Superannuation Corporation — Immunity and Indemnity

The *Governance of Australian Government Superannuation Schemes Act 2011* (the Governance Act) provides for specific immunities for activities undertaken in good faith by Directors and delegates of the board of the Commonwealth Superannuation Corporation (CSC), provided these activities relate to the performance of their functions.

Under the Governance Act, other than in cases where the *Superannuation Industry (Supervision) Act 1993* or regulations under that Act do not so permit, any money that becomes payable by CSC in respect of an action, liability, claim or demand that relates to the superannuation schemes or funds for which it is responsible, is to be paid out of the relevant superannuation fund or if there is no fund, the Consolidated Revenue Fund (CRF). Amounts paid from a superannuation fund are reimbursed to the fund from the CRF.

Future Fund Management Agency and Future Fund Board of Guardians — Indemnity

The Australian Government has provided certain staff members of the Future Fund Management Agency (the Agency) and the members (Board members) of the Future Fund Board of Guardians (the FFBG) with deeds of indemnity. The indemnities are intended to cover liabilities in excess of the insurance cover (including Comcover) of the FFBG, its subsidiary entities and the Agency. Board members are indemnified for liabilities incurred arising out of an act, omission or breach of statutory duty by the Board or a Board member that relates to the performance of the FFBG's functions or the

exercise of the FFBG's powers or that relates to any act, omission or breach of statutory duty by a Board member as a director or officer of a wholly owned Australian subsidiary of the FFBG. Certain Agency staff members are indemnified in connection with the performance of functions or the exercise of powers in their capacity as a director or officer of investee companies or subsidiaries of the FFBG. Subject to certain exceptions or qualifications, Board members and Agency staff members are indemnified for amounts up to the value of the relevant funds.

Board members are not indemnified in respect of any liability owed by them to the FFBG or its subsidiary, or which results from a contravention of a civil penalty provision of the *Future Fund Act 2006* or the *Corporations Act 2001*. Agency staff members are not indemnified to the extent they are indemnified by the relevant investee company or subsidiary, in respect of any liability owed to the FFBG or the Commonwealth, or to the extent that they are granted and receive financial assistance under Appendix E of the Legal Services Directions 2017. Both Board members and Agency staff members are not indemnified for any liability resulting from conduct they engage in other than in good faith, to the extent they recover a liability under a Directors and Officers insurance policy (including Comcover) or in respect of legal costs incurred by them in unsuccessfully defending or resisting criminal proceedings or proceedings regarding a contravention of a civil penalty provision.

Googong Dam

On 4 September 2008, a 150-year lease for Googong Dam was signed between the Australian Government and the Australian Capital Territory (ACT) Government. The Australian Government is liable to pay just terms compensation if the terms of the lease are breached by introducing new legislation or changing the *Canberra Water Supply (Googong Dam) Act 1974* in a way that impacts on the rights of the ACT. The lease includes a requirement for the Australian Government to undertake rectification of easements or any defects in title in relation to Googong Dam, and remediation of any contamination it may have caused to the site. It also gives an indemnity in relation to acts or omissions by the Australian Government.

Indemnities for the Reserve Bank of Australia and private sector banks

In accordance with Government entities' contracts for transactional banking services, the Australian Government has indemnified the Reserve Bank of Australia and contracted private sector banks against loss and damage arising from error or fraud by an entity, or transactions made by a bank with the authority of an entity.

Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects

Ongoing indemnities have been given in respect of a range of asset sales, privatisations and information technology (IT) outsourcing projects that have been conducted by the Department of Finance (Finance), and the former Office of Asset Sales and Commercial Support and its predecessors. The probability of an action being made under one of these indemnities diminishes over time. Details of indemnities in respect of the other asset

sales and privatisations have been provided in previous Budget and MYEFO papers, and previous annual reports of Finance and the Office of Asset Sales and Commercial Support.

Indemnities are listed below. Apart from instances noted elsewhere, Finance does not currently expect any other action to be taken in respect of these indemnities.

Indemnified body	Year(s) raised
ADI Ltd	1998
Albury–Wodonga Development Corporation	2014
Australian Airlines	1991
Australian Industry Development Corporation	1996
Australian Multimedia Enterprise	1997
Australian National Rail Commission and National Rail Corporation Ltd	1997 and 2000
Australian River Co Ltd	1999
Australian Submarine Corporation Pty Ltd	2000
Bankstown Airport Limited	2002
Camden Airport Ltd	2002
ComLand Ltd	2004
Commonwealth Accommodation and Catering Services	1988
Commonwealth Bank of Australia	1993 to 1996
Commonwealth Funds Management and Total Risk Management	1996 to 1997
Employment National Ltd	2003
Essendon Airport Ltd	2001
Federal Airports Corporation’s Airports	1995 to 1997
Health Insurance Commission	2000
Housing Loans Insurance Corporation Ltd	1996
Hoxton Park Airport Limited	2002
Medibank Private Limited	2014
National Transmission Network	1999
Sydney Airports Corporation Ltd	2001
Telstra	1996, 1999 and 2006
Wool International	1999

Australian Government domestic property

The Department of Finance owns and is responsible for managing a number properties within the Australian Government’s domestic non-Defence portfolio. A small number of properties have had potential remediation issues identified, which are currently the subject of further investigation. Except for the properties at Lucas Heights, New South Wales and Cox Peninsula, Northern Territory, none of the remaining properties with potential remediation issues have had a provision recognised, as neither the conditions for legal nor constructive obligations have been met, nor is a reliable estimate of the obligation currently possible.

Australian Government general insurance fund — Comcover

The Department of Finance (Finance) provides insurance and risk management services to Australian Government general government sector entities. Insurance liabilities are subject to large potential revisions as the ultimate outcome of claims is subject to events that have not yet occurred.

Finance takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures, with estimates and judgments regularly updated based on historical experience and other factors.

Australian Naval Infrastructure Pty Ltd — Guarantee in favour of Naval Group Australia

Under the commercial arrangements in respect of the Future Submarine Program and the Submarine Construction Yard, Australian Naval Infrastructure Pty Ltd (ANI) is responsible for the construction of a purpose built Submarine Construction Yard and providing access to the yard to Naval Group Australia and Naval Group S.A. (Société Anonyme). As part of these commercial arrangements, the Australian Government has entered into a Deed of Guarantee and Indemnity with Naval Group Australia Pty Limited and Naval Group S.A., whereby the Australian Government has agreed to provide a guarantee in respect of ANI's financial obligations under the Submarine Construction Yard Access arrangements with Naval Group Australia and Naval Group S.A.

Foreign Affairs and Trade

Commitment to assist the Pacific, Timor-Leste and Southeast Asia with accessing COVID-19 vaccines

The Australian Government is committed to assist in the procurement and delivery of COVID-19 vaccines to partner countries in the Pacific, Timor-Leste and Southeast Asia. Facilitating early access to safe, effective and affordable vaccines will save lives and underpin Australia's security by promoting regional stability and economic recovery. The potential costs are unquantifiable.

Health

Accommodation Payment Guarantee Scheme

The Accommodation Payment Guarantee Scheme (the Guarantee Scheme) guarantees the repayment of aged care residents' refundable accommodation payments (including refundable deposits and accommodation bonds) if the approved provider becomes insolvent or bankrupt and defaults on its refund obligations. In return for the payment, the rights that the resident had to recover the amount from their approved provider are transferred to the Australian Government so it can pursue the approved provider for the funds. In cases where the funds are unable to be recovered, the Australian Government may levy all approved providers holding bonds, entry contributions and refundable accommodation deposits to meet any shortfall.

Advance Purchasing Agreements for COVID-19 vaccine candidates

The Australian Government has provided an indemnity to the suppliers of two potential COVID-19 vaccine candidates, covering certain liabilities that could result from the use of the vaccine. This includes the University of Oxford vaccine candidate, which is sponsored by AstraZeneca, and the University of Queensland vaccine candidate, which is marketed by Seqirus.

Australian Red Cross Society — Indemnities

Deeds of Agreement between the Australian Red Cross Society (the Red Cross) and the National Blood Authority in relation to the operation of Australian Red Cross LifeBlood and the development of principal manufacturing sites in Sydney and Melbourne, include certain indemnities and a limitation of liability in favour of the Red Cross. These indemnities cover defined sets of potential business, product and employee risks and liabilities. Certain indemnities for specific risk events that operate within the term of the Deed of Agreement are capped, and must meet specified pre-conditions. Other indemnities and the limitation of liability only operate in the event of the expiry and non-renewal, or the earlier termination, of the Deed of Agreement relating to the operation of the Red Cross or the cessation of funding for the principal sites, and only within a certain scope. All indemnities are also subject to appropriate limitations and conditions, including in relation to mitigation, contributory fault, and the process of handling relevant claims.

Blood and blood products liability cover

The National Managed Fund (NMF) was established by a memorandum of understanding between the Australian Government, Australian Red Cross LifeBlood (LifeBlood) and state and territory governments, to cover potential future claims in relation to the supply of blood and blood products by LifeBlood. The NMF provides for liabilities incurred by LifeBlood where other available mitigation or cover is not available. Under certain conditions, the Australian Government and the state and territory governments may jointly provide indemnity for LifeBlood through a cost-sharing arrangement for claims, both current and potential, regarding personal injury and loss or damage suffered by a recipient of certain blood products. If there are insufficient funds in the NMF to cover claim costs, the Jurisdictional Blood Committee will consider a report provided by the National Funds Manager to determine the level of additional funds required. The Australian Government's share of any additional liability is limited to 63 per cent of any agreed net cost.

CSL Ltd

CSL Ltd (CSL) is indemnified against claims made by individuals who contract specified infections from specified products and against employees contracting asbestos-related injuries. CSL has unlimited cover for most events that occurred before the sale of CSL on 1 January 1994, but has more limited cover for a specified range of events that occurred during the operation of the Plasma Fractionation Agreement from

1 January 1994 to 31 December 2004. Where alternative cover was not arranged by CSL, the Australian Government may have a contingent liability.

The Australian Fractionation Agreement with CSL Behring (Australia) Ltd (a subsidiary of CSL), which operated from 1 January 2010 to 31 December 2017, and the National Fractionation Agreement for Australia with CSL Behring (Australia) Ltd, which has operated since 1 January 2018, both include a requirement that the National Blood Authority make a defined payment to CSL Behring (Australia) Ltd, in certain circumstances only, in the event that the volume of plasma supplied annually to CSL Behring (Australia) Ltd is less than a specified amount.

Indemnities relating to vaccines

The Australian Government has provided an indemnity to a manufacturer of smallpox vaccine held by the Australian Government, covering possible adverse events that could result from the use of the vaccine in an emergency situation. Indemnities have also been provided to a particular manufacturer of pandemic and pre-pandemic influenza vaccines for the supply or future supply of influenza vaccines under certain conditions (including H1N1 and H5N1).

Medical Indemnity Exceptional Claims Scheme

Under the Medical Indemnity Exceptional Claims Scheme, the Australian Government assumes liability for 100 per cent of any damages payable against practitioners practising in a medical profession that exceeds a specified level of cover provided by the practitioner's medical indemnity insurer (currently $20 million). In 2019, the Government agreed to expand eligibility of the Scheme through an amendment to the Midwife Professional Indemnity (Commonwealth Contribution) Scheme Rules 2010 (MPIS) to provide cover for employed private practising midwives who are not eligible for cover under the MPIS. These arrangements apply to payouts either related to a single large claim or to multiple claims that in aggregate exceed the cover provided by the practitioner's medical indemnity insurer, and would apply to claims notified under contract-based cover since 2003. From 1 July 2020, the *Medical and Midwife Indemnity Legislation Amendment Bill 2019* provides eligibility for this cohort of midwives and allied health professionals under the Allied Health High Cost Claims Scheme and Allied Health Exceptional Claims Scheme within the *Medical Indemnity Act 2002.*

New South Wales Health Administration Council — Indemnity

The New South Wales Government is indemnified by the Commonwealth against liabilities or claims arising in relation to the operation of the National Health Funding Body (NHFB) in two respects:

(i) liabilities or claims arising from acts or omissions of NHFB staff as users of State Pool account information

(ii) liabilities or claims arising from unauthorised access to the banking services or system from NHFB premises.

Home Affairs

Garrison, welfare and health services at regional processing countries — liability limit

The Department of Home Affairs (Home Affairs) entered into a contract with Canstruct International Pty Ltd (Canstruct), which commenced on 1 November 2017, for the provision of garrison and welfare services on Nauru in relation to regional processing arrangements. The contract includes a provision that limits Canstruct's liability to Home Affairs to a maximum of $20 million for any single occurrence and $50 million in aggregate for the term of the contract. The limitation of liability does not apply to personal injury, breach of third-party IP rights, damage to third-party property or malicious acts or omissions attributable to Canstruct.

Immigration detention services by state and territory governments — liability limit

Home Affairs has negotiated arrangements with a number of state and territory governments for the provision of various services (including health, education and policing services) to immigration detention facilities and people in immigration detention. Some jurisdictions sought indemnification by the Australian Government for the provision of those services. These agreements, as listed below, contain unquantifiable indemnities relating to any damage or loss incurred by state and territory governments arising out of, or incidental to, the provision of services under the proposed agreements.

	Service streams		
Jurisdictions	**Health**	**Education**	**Police**
WA	$5 million per claim or event	Uncapped liability	$5 million per claim or event
NSW	N/A	$5 million per claim or event	$5 million per claim or event
VIC	Uncapped liability	Uncapped liability	$5 million per claim or event
QLD/TAS/ACT/NT	N/A	$5 million per claim or event	$5 million per claim or event
SA	$5 million per claim or event	$5 million per claim or event	$5 million per claim or event

Home Affairs negotiates arrangements as necessary for the provision of correction services. The indemnity provided to states and territory governments under these arrangements is no more than $30 million per event.

Immigration detention services contract — liability limit

Home Affairs entered into a contract with Serco Australia Pty Ltd (Serco), which commenced on 11 December 2014, to deliver immigration detention services in Australia on behalf of the Australian Government at immigration detention facilities. The contract term limits Serco's liability to Home Affairs to a maximum of any insurance proceeds

recovered by Serco up to a value of $330 million for the term of the contract. Serco's liability is unlimited for specific events defined under the contract.

Australian Victims of Terrorism Overseas Payment

The *Social Security Amendment (Supporting Australian Victims of Terrorism Overseas) Act 2012* inserted Part 2.24AA into the *Social Security Act 1991* to create a scheme for providing financial assistance to Australian residents who are victims of an overseas terrorist act that has been declared by the Prime Minister. The scheme commenced on 22 January 2013. Under the scheme, Australian residents harmed (primary victims) or whose close family members die as a direct result of a declared terrorist act (secondary victims) are eligible to claim one-off payments of up to $75,000. As acts of terrorism are unpredictable, and the declaration of overseas terrorists acts discretionary, the cost of the scheme is unquantifiable.

Disaster Recovery

The Australian Government provides funding to states and territories through the Australian Government Cost Sharing Arrangements (Natural Disaster Relief and Recovery Arrangements (NDRRA) and the Disaster Recovery Funding Arrangements (DRFA) 2018) to assist with natural disaster relief and recovery costs. A state or territory may claim NDRRA/DRFA funding if a natural disaster occurs and state or territory relief and recovery expenditure for that event meets the requirements set out in the arrangements. For major disasters, the Australian Government may approve payments to individuals under the *Social Security Act 1991*. These include the Australian Government Disaster Recovery Payment and Disaster Recovery Allowance. As disasters and their impacts are unpredictable, the cost relating to these payments from future disasters is unquantifiable and therefore not included in the forward estimates.

The current forward estimates for the NDRRA/DRFA include preliminary estimates for past events, based on the best information available at the time of preparation. Preliminary estimates of the cost of a disaster and the timing of expenditure are subject to change. The total cost of relief and recovery from these past events may not be completely realised for some years.

The Government also maintains an Emergency Response Fund (ERF) to provide additional resourcing to assist with the preparation for, and response to, natural disasters. Reflecting the unpredictability of natural disasters the cost of any payments from the ERF are unquantifiable and not included in the Budget estimates.

Industry, Science, Energy and Resources

Snowy Hydro Limited — water releases

On 29 June 2018, Snowy Hydro Limited became a wholly Commonwealth owned company following the Commonwealth's acquisition of the New South Wales (NSW) and Victorian Governments' shares. At the time of corporatisation of Snowy Hydro Limited on 28 June 2002, the Australian, NSW and Victorian Governments, as the then

owners, indemnified the company for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the Snowy Water Licence and related regulatory arrangements agreed between the three governments, including the *Snowy Water Inquiry Outcomes Implementation Deed (SWIOID) 2002*. The indemnity applies to liabilities for which a claim is notified within 20 years from 28 June 2002.

As the sole owner, the Commonwealth is now wholly liable for the indemnity. However, NSW must pay 100 per cent of the amount claimable where the liability is a result of the Snowy Water Licence being inconsistent with the SWIOID or with a direction from NSW that is inconsistent with principles for managing water releases from Jindabyne Dam, as agreed by the Australian, NSW and Victorian Governments.

Liability for costs incurred in a national liquid fuel emergency

The Australian Government has responsibility for the *Liquid Fuel Emergency Act 1984* (the Act). In addition, the Australian Government and state and territory governments have entered into an inter-governmental agreement in relation to a national liquid fuel emergency (IGA 2006). Under the IGA, the Australian Government agrees to consult IGA parties on a likely shortage and, if necessary after those consultations, to advise the Governor General to declare a national emergency under the Act.

The IGA also contains three areas where the Australian Government may incur expenses in the unlikely event of a national liquid fuel emergency. These relate to the direct costs of managing a liquid fuel emergency and include the possibility of the Australian Government reimbursing the state and territory governments for costs arising from their responses, and potential compensation for industry arising from Australian Government directions under the Act.

Australian Nuclear Science and Technology Organisation — asbestos contamination

The Australian Nuclear Science and Technology Organisation (ANSTO) site contains asbestos in a number of buildings and in the soil at the Lucas Heights campus. Although there is potential for claims being made in relation to asbestos related diseases, the potential costs have not been assessed and are unquantifiable contingencies.

Australian Nuclear Science and Technology Organisation — Indemnity

On 21 April 2016, the then Minister for Industry, Innovation and Science signed a Deed of Indemnity between the Commonwealth Government, ANSTO and ANSTO Nuclear Medicine Pty Ltd (ANM), under which the Government formally agreed to indemnify ANSTO and ANSTO Officers, and ANM and ANM Officers, from any loss or liability arising from claims caused by ionising radiation. This Deed will remain in place until April 2026.

Former British atomic test site at Maralinga

The Australian Government is responsible for 14 unlimited indemnities relating to the Maralinga Rehabilitation Project (1995-2000). In November 2009, the Australian Government agreed to the handback of the former nuclear test site — Maralinga section 400 — to the site's Traditional Owners, Maralinga Tjarutja. Under the terms of the *Maralinga Nuclear Test Site Handback Deed*, the Australian Government has indemnified the Maralinga Tjarutja people and the South Australian Government in respect of claims arising from test site contamination.

Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability

The Australian and Western Australian (WA) Governments have provided an indemnity to the Gorgon Joint Venture Partners (GJV) against independent third-party claims (relating to stored carbon dioxide) under common law following closure of the carbon dioxide sequestration project. The claims are subject to conditions equivalent to those set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.

The WA Government has indemnified the GJV, and the Australian Government has indemnified the WA Government for 80 per cent of any amount determined to be payable under that indemnity.

Land decontamination and site restoration for CSIRO property

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) has made a financial provision for the estimated costs in restoring and decontaminating land where a legal or constructive obligation has arisen. For cases where there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable contingencies.

United States Strategic Petroleum Reserve (US SPR) Lease Agreement — Indemnity under certain conditions

On 3 June 2020, the Australian Government entered into a commercial leasing agreement with the United States (US) Department of Energy (DoE). This agreement facilitates the storage of Australia's first-ever government-owned strategic fuel reserve in the US Strategic Petroleum Reserve (SPR).

Under the lease agreement, the Australian Government indemnifies the US SPR for any liabilities incurred (subject to certain exceptions) arising from or related to: the transportation of crude oil to the SPR; third party claims made in connection with the drawdown or delivery of the oil; and customs duties, fees or other charges which may arise from the Australian Government's non-compliance with US Customs Law.

Infrastructure, Transport, Regional Development and Communications

NBN Co Limited — Board Members' Insolvency Indemnity

The Australian Government has provided Directors of NBN Co with an indemnity against liability should the Government fail to meet its funding obligations to NBN Co. The liabilities covered by this indemnity would be no greater than those covered by the NBN Co Equity Funding Agreement, with the exception of any legal expenses incurred by individual Directors arising from this indemnity.

Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory

The Department of Infrastructure, Transport, Regional Development and Communications engages the New South Wales Rural Fire Service (NSW RFS) to provide fire management in the Jervis Bay Territory (JBT). To provide these services, the NSW RFS requires the Australian Government to provide an uncapped indemnity against any actions or claims resulting from the actions of the NSW RFS while providing fire management services in the JBT. The indemnity covers the same period of time for which NSW RFS is engaged to provide the fire management services. The likelihood of an event occurring that may result in a liability for the Australian Government is assessed as remote. The risk of a liability is mitigated through a range of risk management measures, including NSW RFS staff training and professional qualifications.

Moorebank Intermodal Company Limited — Board Members' Indemnity

The Australian Government has provided certain indemnities for the Directors and Officers of the Moorebank Intermodal Company Limited to protect them against civil claims relating to their employment and conduct. These indemnities were provided to Directors when the Board was first established, however not to subsequent Directors. The indemnities apply to the period of appointment as Directors or Officers of the company. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.

Moorebank Intermodal Project — Georges River rail crossing

The Australian Government has provided an indemnity to cover costs and liabilities that may be incurred by the State of New South Wales arising under the *Native Title Act 1993* (Cth) associated with the construction of a rail bridge over the Georges River to the Moorebank Intermodal Terminal. The likelihood of costs being incurred is considered remote and potential costs are unquantifiable.

Service Delivery Arrangement Indemnities — External Territories and Jervis Bay Territory

Since 1992, the Australian Government has been entering into Service Delivery Arrangements with the Western Australian (WA) Government for the provision of services to the Indian Ocean Territories of Christmas Island and the Cocos (Keeling) Islands. The Australian Government has provided certain indemnities for the WA Government,

their respective officers, agents, contractors and employees against civil claims relating to their employment and conduct as officers.

From 1 July 2016, the New South Wales (NSW) Government has provided a range of services to the Norfolk Island community through a Heads of Agreement.

The Australian Capital Territory (ACT) provides a number of services to the Jervis Bay Territory under Memoranda of Understanding. The Australian Government has provided certain indemnities for the ACT Government authorities and officials in respect of the delivery of services to the Jervis Bay Territory.

The likelihood of an event occurring that may result in a liability for the Australian Government has been assessed as remote and the risks are currently mitigated through the training and professional qualifications of the staff of these agencies.

Australian Maritime Safety Authority incident costs

In the normal course of operations, the Australian Maritime Safety Authority (AMSA) is responsible for the provision of funds necessary to meet the clean-up costs arising from ship-sourced marine pollution and, in all circumstances, is responsible for making appropriate efforts to recover the costs of any such incidents. The Australian Government meets costs that cannot be recovered from such incidents. It is not possible to estimate the amounts of any eventual payments that may be required in relation to these incident costs. AMSA has established a pollution response financial capability of $50 million, backed by liquid investment funds, to provide funding should the overall clean-up costs exceed the liability limit of the ship-owner.

Aviation rescue and firefighting potential per- and poly-fluoroalkyl substances contamination

The Department of Infrastructure, Transport, Regional Development and Communications (the Department) has identified a number of sites in Australia potentially contaminated with per- and poly-fluoroalkyl substances (PFAS) previously contained in firefighting foams.

The identified contaminants do not naturally break down in the environment and have been listed on the Stockholm Convention as persistent contaminants. Australian health and environmental agencies have set a range of standards for environmental protection and precautionary health measures.

Up to 37 airport sites are potentially contaminated with PFAS (20 federally leased airports and 17 regional airports) relating to the Commonwealth provision of fire-fighting services. Airservices Australia (Airservices) is implementing a national PFAS management program, which includes PFAS investigations at 20 airport sites. The costs of potential long-term management options cannot be quantified at this time.

For federally leased airports, Airport Lessee Companies are responsible for environmental management of their airport sites. Airport leases indemnify the Commonwealth in relation to damages or injury to the environment. Liability has not yet been established for costs arising from PFAS contamination. Awaiting Court approval, the Commonwealth has recently agreed to a settlement for three class actions over the use of historical PFAS-containing firefighting foam by the Department of Defence at Williamtown, Oakey and Katherine (Tindal). The legal firm involved have announced their intentions to proceed with another action including Darwin and Townsville, joint civil/military airports. Brisbane Airport Corporation has also commenced legal proceedings in the Queensland Supreme Court against Airservices in relation to legacy PFAS contamination from Airservices' firefighting activities at the airport.

Treasury

Terrorism insurance — commercial cover

The *Terrorism Insurance Act 2003* established a scheme for terrorism insurance covering damage to commercial property, including associated business interruption and public liability (extended in 2017 to mixed-use and high-value residential buildings). The Australian Reinsurance Pool Corporation (ARPC) uses reinsurance premiums paid by insurers to meet its administrative expenses, to maintain a pool of funds and to purchase reinsurance to help meet future claims. The Australian Government guarantees to pay any liabilities of the ARPC, but the responsible Minister (or delegate) must declare a reduced payout rate to insured entities if the Government's liability would otherwise exceed $10 billion.

First Home Loan Deposit Scheme

The First Home Loan Deposit Scheme began on 1 January 2020. The Australian Government guarantees the liabilities under the First Home Loan Deposit Scheme (the Scheme) as they arise. Guarantee liabilities arise under the Scheme where a lender's loss is covered by the guarantee, the lender makes a claim against the guarantee and the National Housing Finance and Investment Corporation (NHFIC) accepts the claim.

Because liabilities under the Scheme are met by a standing appropriation, the NHFIC is not required to maintain capital and reserves to meet these liabilities.

International Monetary Fund — Poverty Reduction and Growth Trust

In the July 2020 Economic and Fiscal Update, the Government announced it would make a line of credit available to the International Monetary Fund (IMF) under the Poverty Reduction and Growth Trust (PRGT) through to 31 December 2029. The PRGT provides concessional financial support to low income countries to help them achieve, maintain, or restore a stable and sustainable macroeconomic position. PRGT funds are drawn upon by the IMF as needed and will be repaid in full with interest.

The Government intends to loan SDR 500 million (approximately A$1 billion at 30 June 2020) to the IMF under the PRGT.

Indemnities for specialised external advisers during the COVID-19 pandemic

The Government has provided indemnities for certain specialised external advisers engaged to provide advice on emerging markets issues related to COVID-19. Indemnities were provided to mitigate personal risk and provide coverage for costs related to any legal proceedings that may arise in relation to the provision of that advice.

The indemnities apply for the period of engagement as advisers and for claims that are notified within 12 years after cessation of the adviser's engagement. Until the indemnity agreements are varied or expire, they will remain as contingent and unquantifiable liabilities.

Small and Medium Enterprise Guarantee Scheme

The Australian Government will guarantee 50 per cent of loans issued under the Coronavirus Small and Medium Enterprises (SME) Guarantee Scheme provided by eligible lenders to SMEs.

The Australian Government will also guarantee 100 per cent of loans issued under the Arts and Entertainment Guarantee Scheme and provided by eligible lenders (up to $90 million of loans).

The Arts and Entertainment Guarantee Scheme is being administered alongside the Coronavirus SME Guarantee Scheme. The maximum liability that the Government could be exposed to arising from both schemes combined is $20 billion.

Contingent assets — unquantifiable

Health

Legal action seeking compensation

The Department of Health is engaged in legal action against certain pharmaceutical companies to recover savings denied to the Commonwealth because interim injunctions granted to these companies in unsuccessful patent litigation delayed generic versions of drugs being listed on the Pharmaceutical Benefits Scheme and thereby delaying statutory and price disclosure related price reductions for these drugs.

Home Affairs

Civil penalty proceedings in the Federal Court against Westpac Banking Corporation

On 20 November 2019, AUSTRAC applied to the Federal Court of Australia for civil penalty orders against Westpac Banking Corporation (Westpac) for systemic non-compliance with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act). AUSTRAC alleges Westpac contravened the AML/CTF Act on over 23 million occasions. On 24 September 2020, AUSTRAC announced it had reached

an agreement with Westpac regarding their breaches of the AML/CTF Act, including a proposed penalty of $1.3 billion in settlement of the matter. The Federal Court will now consider the appropriateness of the proposed penalty.

Contingent liabilities — quantifiable

Defence

Claims against the Department of Defence

The Department of Defence (Defence) has six instances of non-remote, quantifiable contingent liabilities in respect of claims on Defence valued at $53.8 million. The estimated figure is determined by conducting an objective analysis of the probable amount payable for all matters managed by firms engaged by Defence through the Attorney-General's Whole of Australian Government Legal Services Panel and those being handled in-house by Defence Legal Division. However, the exact amount payable under those claims is uncertain. Defence is defending the claims or is trying to resolve them by recourse to alternative dispute resolution measures.

Education, Skills and Employment

ParentsNext program

ParentsNext supports parents to identify their education and employment related goals, to build their work readiness and plan and prepare for employment by the time their youngest child starts school.

Under the program, providers accumulate one-off credits, which accrue to their provider's Participation Fund on commencement of an intensive stream participant.

Currently providers are forecast to spend less than the value of the available credits, creating an accumulating surplus of credits that present a contingent liability.

The current outstanding credits accumulated from years prior to 2019-20 represent a contingent liability for the Budget.

Foreign Affairs and Trade

Export Finance Australia

The Australian Government guarantees the due payment of money that is, or may at any time, become payable by the Export Finance Australia to anybody other than the Government. In 2019, the Government increased Export Finance Australia's callable capital by $1.0 billion to $1.2 billion and granted it a new overseas infrastructure financing power. The callable capital is available to Export Finance Australia, on request, to cover liabilities, losses and claims. As at 30 June 2020, the Government's total contingent liability was $3.3 billion. The $3.3 billion contingent liability comprises Export Finance Australia's liabilities to third parties ($2.8 billion) and Export Finance Australia's overseas investment insurance, contracts of insurance and guarantees ($0.5 billion). Of the total contingent liability, $2.4 billion relates to Export Finance

Australia's Commercial Account and $0.9 billion relates to the National Interest Account.

Industry, Science, Energy and Resources

Underwriting of Transmission Projects

The Australian Government is working with the New South Wales (NSW), South Australian and Victorian Governments to provide early works underwriting support to the HumeLink, Project EnergyConnect and Victoria to NSW Interconnector West (VNI West) projects.

The Australian Government and NSW Government will each underwrite 50 per cent of the early works of the proposed HumeLink transmission line (up to a total of $65.7 million). The underwriting of the early works project costs for Project EnergyConnect and VNI West will be capped at a maximum amount, but the specific terms of the underwriting arrangements will not be finalised until negotiations are complete with relevant parties.

Conditions for the underwritings to be called upon are likely to relate to the projects not achieving regulatory and approval requirements, but are also dependent on the final underwriting arrangements negotiated.

Infrastructure, Transport, Regional Development and Communications

Australian Government contribution to the East West Link project

The Australian Government remains committed to the construction of East West Link, despite the decision of the Victorian Government not to proceed with the project.

To this end, the Australian Government will provide $4 billion to the first Victorian Government willing to build the East West Link and is therefore recording this commitment as a contingent liability in the Budget.

Australian Government contribution to the Perth Freight Link project

The Australian Government remains committed to the construction of the Roe 8 and 9 extensions to complete the Perth Freight Link, despite the decision of the Western Australian (WA) Government not to proceed with the project.

To this end, the Australian Government will provide $1.2 billion to the first WA Government willing to build the Perth Freight Link by constructing the Roe 8 and 9 extensions and is therefore recording this commitment as a contingent liability in the Budget.

Prime Minister and Cabinet

Indigenous Land and Sea Corporation — Debt Guarantee

The Indigenous Land and Sea Corporation (ILSC) provides a guarantee to a major bank that has provided a $120 million facility to its wholly-owned subsidiary, Voyages Indigenous Tourism Australia Pty Ltd. As at 30 June 2020, the outstanding balance of the facility was $102.5 million.

Treasury

Australian Taxation Office — tax disputes

At any point in time the Australian Taxation Office is involved in a range of dispute resolution processes, including litigation, relating to tax disputes.

Details of the outcome of dispute resolution processes are uncertain until a court ruling is made and/or an agreement is reached with the taxpayer. As a result, in most cases it is not possible to estimate with any reliability the likely financial impact of current disputes. The estimated aggregate value of tax in dispute as at 30 June 2020, for which a provision has not been made, is $5.0 billion.

Outcomes of dispute resolution processes are included in the Commissioner of Taxation's Annual Report each year. This may include disputes resolved through objections, settlements and court and tribunal decisions. It may also include amounts owed by taxpayers that are subject to dispute but not finalised.

International financial institutions — uncalled capital subscriptions

The Australian Government has held an uncalled capital subscription in the International Bank for Reconstruction and Development (IBRD) since 1947. Australia's current uncalled capital subscription to the IBRD totals around US$3.6 billion (estimated value A$5.2 billion as at 30 June 2020). In 2018, the Australian Government agreed to participate in a capital increase package which will increase the uncalled capital subscription by around US$0.8 billion (estimated value A$1.2 billion as at 30 June 2020), but the enabling legislation has not yet passed Parliament.

The Australian Government has also held an uncalled capital subscription in the European Bank for Reconstruction and Development (EBRD) since 1991. Australia's uncalled capital subscription to the EBRD totals around EUR237.5 million (estimated value A$388.6 million as at 30 June 2020).

The Australian Government has further held an uncalled capital subscription in the Asian Development Bank (ADB) since 1966. Australia's uncalled capital subscription to the ADB totals around US$7.0 billion (estimated value A$10.2 billion as at 30 June 2020).

The Australian Government has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$38.7 million as at 30 June 2020.

The Asian Infrastructure Investment Bank (AIIB) was established on 25 December 2015. The Australian Government has subscribed to shares in the AIIB, which includes an uncalled capital subscription. Australia's uncalled capital subscription to the AIIB totals around US$3.0 billion (estimated value A$4.4 billion as at 30 June 2020).

None of these international financial institutions has ever drawn on Australia's uncalled capital subscriptions.

International Monetary Fund

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. This is a contingent loan to help ensure that the IMF has the resources available to maintain stability in the global economy. The value of Australia's NAB credit arrangement now stands at Special Drawing Rights (SDR, the IMF's unit of account) of around SDR2.2 billion (estimated value A$4.4 billion at 30 June 2020). On 4 November 2016, the IMF Executive Board agreed to renew the NAB for an additional five-year period to 16 November 2022.

In addition, Australia has made available a SDR4.61 billion (approximately A$9.2 billion at 30 June 2020) contingent bilateral loan to the IMF, known as a Bilateral Borrowing Agreement. This contingent bilateral loan is on terms consistent with other bilateral loans and note purchase agreements between the IMF and other contributing countries. The contingent bilateral loan will be drawn upon by the IMF only if needed to supplement the IMF's quota and NAB resources and any drawings on loans would be repaid in full with interest. On 24 July 2019, the Treasurer agreed to a one-year extension of Australia's contingent loan to the IMF through to 31 December 2020.

Government loans

Loans are recorded as financial assets and accordingly the amounts advanced and repaid do not normally affect the budget aggregates of fiscal balance and underlying cash balance. Loans that are concessional (lower than market interest rate) or are agreed to be written off result in an impact on fiscal balance.

The Government makes loans for policy purposes. All loans contain some element of credit risk that they will not be repaid in full, although in many cases this risk is small. Table 3 summarises Government loans estimated to exceed $200 million at 30 June 2020.

Table 3: Summary of Australian Government loans exceeding $200 million

Entity	Loan amount[a] ($m)	Borrower	Interest rate	Term	Status[b][c]
Department of Education, Skills and Employment					
Higher Education Loan Program and VET Student Loans Program	50,633	Eligible tertiary education students	Consumer Price Index (CPI) growth	9.4 years*	Modified
Trade Support Loans Program	741	Eligible Australian Apprentices	CPI growth	-	Modified
Department of Infrastructure, Transport, Regional Development and Communications					
NBN Co Loan	19,458	NBN Co Limited	3.96 per cent	30 June 2024	Unchanged
WestConnex Stage 2 Concessional Loan	1,880	WCX M5 Finco Pty Ltd	3.36 per cent	November 2015 to July 2034	Unchanged
National Water Infrastructure Loan Facility	0	State and Territory governments and non-government entities	1.46 per cent	Up to 30 Years	Removed
Clean Energy Finance Corporation					
Clean Energy Finance Corporation	2,273	Approved entities undertaking clean energy technology projects	4.4 per cent weighted average	5-15 years	Modified
Australian Office of Financial Management					
Commonwealth-State financing arrangements — Housing and Specific Purpose Capital	1,492	State and Northern Territory Governments	4.0 per cent — 6.0 per cent	Up to 30 June 2042	Unchanged
Indigenous Business Australia					
Indigenous Home Ownership, Business Development and Assistance	995	Eligible Indigenous persons	3.0 — 6.9 per cent*	Up to 30 years	Modified

Table 3: Summary of Australian Government loans exceeding $200 million (continued)

Department of Agriculture, Water and the Environment					
Drought related and farm finance concessional loans — Agriculture	587	State Governments (that, through their delivery agencies, on-lend to eligible farm businesses)	Various	Various	Modified
Farm Investment Loans, Drought Loans and AgRebuild	349	Eligible Australian farm businesses and related small businesses, via Regional Investment Corporation	Up to 1.92 per cent	Up to 10 years	Modified
Export Finance Australia					
Short-Term Loan to the Government of Papua New Guinea	443	The independent state of Papua New Guinea	LIBOR + 0.5 per cent	Commercial in confidence	New
Papua New Guinea Liquefied Natural Gas	244	Entities associated with the Papua New Guinea Liquefied Natural Gas project	Commercial in confidence	Until 2026	Modified
Department of Social Services					
Student Financial Supplement Scheme	437	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY recipients	CPI growth	Various	Modified
Student Start up Loan	367	Eligible Youth Allowance (student), Austudy and ABSTUDY Living Allowance recipients	CPI growth	Various	Modified
Indigenous Land Corporation					
Voyages Indigenous Tourism Australia Pty Ltd	281	Voyages Indigenous Tourism Australia Pty Ltd	90 Day bank bill swap reference rate + 5 per cent	9 years, 11 months	Unchanged
Department of Health					
Zero Real Interest Loans	258	Residential aged care providers	CPI growth	Up to 22 years	Unchanged

Table 3: Summary of Australian Government loans exceeding $200 million (continued)

Department of the Treasury					
International Monetary Fund — New Arrangements to Borrow	213	International Monetary Fund	0.1 per cent	10 years	Modified
Affordable Housing Bond Aggregator	115	National Housing Finance and Investment Corporation	Commonwealth cost of borrowing	Various	Unchanged

* Average.
\# To be determined after sufficient numbers of compulsory repayments commence.
^ Estimated.
(a) Loan amount is the estimated loan program amounts outstanding as at 30 June 2020 in $ million.
(b) Status of loan items are considered 'unchanged' unless there are modifications to respective interest rates and/or loan terms.

Higher Education Loan Program and VET Student Loans Program

The Higher Education Loan Program (HELP) and the VET Student Loans (VSL) program are income-contingent loan programs that assist eligible tertiary education students with the cost of their fees. As at 30 June 2020, the fair value of debt outstanding is estimated to be $50.6 billion. The fair value takes into account the concessionality of HELP loans and makes an allowance for debt not expected to be repaid.

Debts outstanding for more than 11 months are indexed annually using the Consumer Price Index. The Australian Taxation Office collects repayment of these debts through the tax system. Repayment of debts commence when an individual debtor's income reaches the repayment threshold.

There were 2,972,032 HELP debtors as at 30 June 2019. The repayment term of a HELP debt can only be determined for people who have fully repaid their debt. As at the end of June 2019, the average time taken to repay HELP debts was 9.4 years.

HELP comprises a number of programs, including HECS-HELP, FEE-HELP, OS-HELP, SA-HELP, VET FEE-HELP and VET Student Loans from 1 January 2018 to 30 June 2019.

Trade Support Loans Program

The Trade Support Loans Program is an income-contingent, concessional loan program that assists eligible Australian Apprentices by providing financial support of up to $21,542 to assist with the costs of living, learning and undertaking an apprenticeship, and helping apprentices to focus on completing a trade qualification.

Eligible Australian Apprentices can access up to $718.07 per month in the first year of their apprenticeship, $538.56 per month in the second year, $359.04 per month in the third year and $179.52 per month in the fourth year

The loan amounts provided are higher in the early years of training to compensate for lower wages. The lifetime limit of $21,542 was indexed on 1 July 2020 using the Consumer Price Index and will continue to be indexed annually on 1 July to maintain its real value

As an incentive to encourage completion of training, apprentices who successfully complete their apprenticeships are eligible for a 20 per cent discount on their loan. The loans become repayable at the same thresholds as the Higher Education Loan Program, which is $46,620 for the 2020-21 income year. This is a demand-driven program.

NBN Co Loan

The Australian Government has provided a loan to NBN Co on commercial terms of up to $19.5 billion, with drawings available on a monthly basis. The loan was established in December 2016 and must be repaid in full by 30 June 2024. The loan has a fixed interest rate of 3.96 per cent per annum, with interest payable monthly over the life of the facility.

WestConnex Stage 2 Concessional Loan

The WestConnex concessional loan is a $2 billion loan facility provided to deliver WestConnex Stage 2. The concessional loan enabled Stage 2 to be brought forward, allowing Stages 1 and 2 to proceed in parallel. This resulted in significant time savings, compared to the original approach where these stages progressed in sequence.

WestConnex Stage 2 includes the King Georges Road Interchange Upgrade (completed in 2016) and construction of new twin tunnels from Kingsgrove to a new St Peters interchange, providing motorway connections to Alexandria and Mascot, the future Sydney Gateway and the M4-M5 Link.

The concessional loan agreement requires that the loan be repaid between September 2029 and July 2034.

Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) has developed a portfolio of loans and investments across the spectrum of clean energy technologies, as required by the *Clean Energy Finance Corporation Act 2012*. This portfolio has an acceptable but not excessive level of risk relative to the sector, as required under the Clean Energy Finance Corporation Investment Mandate Direction 2018.

The CEFC's loan portfolio consists of predominantly senior-ranking, secured loans, and secured project finance facilities, typically secured against energy-generating assets such as wind or solar farms or biogas facilities or energy efficiency assets. The CEFC has predominantly made loans as a co-financier either jointly or in consortiums with private sector financial institutions. Interest rates vary with a current average expected return of approximately 4.4 per cent. Loans have various maturity dates, typically in the range of 5–15 years. As at 30 June 2020, loans contracted and outstanding are expected to total $2.273 billion.

Commonwealth-State financing arrangements — Housing and Specific Purpose Capital

From 1945 to 1989, the Australian Government made concessional advances to the state and Northern Territory Governments under Commonwealth–State financing arrangements for housing and for specific purpose capital. The advances were concessional fixed-rate loans to be repaid over 53 years, with the last loans maturing in 2042. Annual payments, comprising both interest and principal repayment, are made to

the Commonwealth Government. As at 30 June 2020, the amortised value of the advances was $1.492 billion (and principal value of $1.646 billion).

The Australian Office of Financial Management manages the receipt of interest and principal repayments from the state and Northern Territory Governments to the Commonwealth Government.

Indigenous Home Ownership, Business Development and Assistance

Indigenous Business Australia (IBA) delivers flexible loans with concessional interest rates to improve Indigenous home ownership across Australia, including in remote Indigenous communities. IBA also provides concessional interest rate business loans and business support to increase Indigenous ownership of small to medium sized enterprises, and support their sustainability and growth. As at 30 June 2020, the fair value of outstanding loans for Indigenous Home Ownership and Business Development and Assistance was estimated to total $995 million.

Drought related and farm finance concessional loans — Agriculture

As at 30 June 2019, the fair value of farm business, drought and dairy farm related loans is estimated to total $586.6 million. These include:

Drought Concessional Loans Scheme: This scheme provided loans to drought-affected farm businesses for debt restructuring, operating expenses and drought recovery and preparedness activities. The scheme commenced in June 2014 as a loans scheme available for two years and operated in Queensland, Victoria, New South Wales, South Australia, Western Australia, Tasmania and the Northern Territory. The Government extended the application period until 31 October 2016 to cover the period until the new 10-year Farm Business Concessional Loans Scheme was able to commence on 1 November 2016. The Government also extended the Western Australian application period for the Drought Concessional Loans Scheme until 30 June 2017.

As at 1 August 2020, the interest rate is 1.54 per cent, reviewed on a six-monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans have a maximum term of five years, with an extenuating circumstances clause in some jurisdictions, which allows a maximum two-year extension to the loan at commercial rates.

Drought Recovery and Dairy Recovery Concessional Loans Scheme(s): The drought recovery component of this scheme provided loans to farm businesses affected by unprecedented drought or, where applicable, Queensland farm businesses directly impacted by the combined effects of drought and the mid-2011 disruption to live cattle exports to Indonesia. The loans funded planting and restocking activities and associated expenses, when seasonal conditions allowed. The loans were available from January 2015, and in 2014-15, operated in Queensland and New South Wales. In 2015-16, drought recovery concessional loans were available in Queensland, New South Wales, South Australia and Tasmania.

The dairy recovery component of this scheme provided concessional loans to dairy farm businesses affected by the 2016 reduction in farm gate milk prices by Murray Goulburn, Fonterra and National Dairy Products. Loans were available for debt restructuring, providing new debt for operating expenses or productivity enhancement activities, or a combination of these purposes. Dairy recovery concessional loans became available in Victoria, New South Wales, South Australia and Tasmania from June 2016. Applications closed on 31 October 2016. A dairy recovery concessional loan product was available under the Farm Business Concessional Loans Scheme until 30 June 2018.

As at 1 August 2020, the interest rate is 1.04 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Australian Government bond rate. Loans have a maximum term of 10 years with interest-only payments required for the first five years. Principal and interest repayments will be made in the remaining five years of the loan term.

Farm Business Concessional Loans Scheme: This scheme provided three types of concessional loans — drought assistance, dairy recovery and business improvement. This scheme was designed to cover a farmer’s short-term needs when income was tight and to supplement, rather than replace, commercial finance. Loans under the scheme were first available in November 2016. Applications for loans under the scheme closed on 30 June 2018.

Drought assistance concessional loans were available in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Loans were available for debt restructuring, operating expenses, drought preparedness activities or drought-recovery activities or a combination of these purposes.

Business improvement concessional loans were available in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Loans were available for eligible Farm Household Allowance (FHA) recipients who were recovering from financial hardship and had exhausted, or would exhaust their FHA 1,095-day income support entitlement, by 30 June 2018. These loans were for debt restructuring only.

Dairy recovery concessional loans were available in New South Wales, Victoria, South Australia and Tasmania to eligible suppliers of Murray Goulburn, Fonterra and National Dairy Products. Loans were available for debt restructuring, providing new debt for operating expenses, productivity enhancement activities or a combination of these purposes.

As at 1 August 2020, the interest rate is 1.44 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Australian Government bond rate. Loans have a maximum term of 10 years.

Farm Finance Concessional Loans Scheme: This scheme provided concessional loans to eligible farm businesses experiencing financial difficulties that were considered commercially viable in the long term, and were for productivity enhancements and debt restructuring. Applications for Farm Finance Concessional Loans closed on 30 June 2015.

As at 1 August 2020, the interest rate is 2.04 per cent, reviewed on a six-monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans have a maximum term of five years, with an extenuating circumstances clause in some jurisdictions, which allows a maximum two-year extension to the loan, on commercial terms.

Farm Investment Loans, Drought Loans, AgBiz and AgRebuild

The Regional Investment Corporation commenced operations on 1 July 2018.

There are four loan products currently available to farm businesses — farm investment loans, drought loans, AgRebuild loans (North Queensland flood) and AgBiz (drought loans for small businesses). The Government has agreed to commence the Agristarter loan product on 1 January 2021.

All loan products provide concessional loans to eligible businesses that are experiencing financial difficulties and are considered financially viable in the long term (additional criteria apply for each product and terms and conditions may vary). All products are for farm businesses, with the exception of AgBiz is for those small businesses that provide primary production related goods and services for drought affected farm businesses. Applications for AgRebuild loans closed on 30 June 2020.

As at 1 August 2020, the variable interest rate is 1.92 per cent. Interest rates are revised on a six monthly basis in line with any material changes to the Australian Government 10-year bond rate, where a material change is taken to be a movement of more than 10 basis points (0.1 per cent). Interest is not payable during the first two years of the AgRebuild Loan, and (from 1 January 2020) the drought loans and AgBiz.

Loans have a maximum term of 10 years.

Short-Term Loan to the Government of Papua New Guinea

The Government provided a loan of US$300 million (approximately A$440 million) in 2019-20 to the Government of Papua New Guinea to support budget sustainability, assist in the delivery of core government services, support longer-term economic reforms and increase the availability of foreign exchange in the country. As at 30 June 2020, the full value of the loan amount was outstanding.

The Government is negotiating with PNG regarding the need to expand its loan provisions to PNG as a result of the COVID-19 pandemic and its impacts. This may result in the provision of further funding to PNG.

Student Financial Supplement Scheme

The Student Financial Supplement Scheme (SFSS) commenced in January 1993 and closed on 31 December 2003. It was a voluntary income contingent loan scheme for tertiary students (primarily Austudy and ABSTUDY) to help cover their living expenses while studying. Under the scheme, eligible students were able to trade one dollar of income support entitlement for two dollars in loans. Debtors are required to start repaying their SFSS loan once they earn $46,620 for 2020-21. As at 30 June 2020, the fair value of loans outstanding is estimated to total $436.9 million.

Student Start-up Loan

The Student Start-up Loan (SSL) is a voluntary income contingent loan for student payment (Youth Allowance (student), Austudy and ABSTUDY Living Allowance) recipients undertaking higher education. Introduced on 1 January 2016, the SSL is paid a maximum of twice a year and each SSL payment is valued at $1,094 (in 2020). The SSL is repayable under similar arrangements to Higher Education Loan Program (HELP) debts. Students are required to start repaying their SSL once they earn over $46,620 for 2020-21 and only after they have repaid their HELP debt. When it commenced, the SSL was initially for new student payment recipients undertaking higher education. From 1 July 2017, with the closure of the Student Start-up Scholarship, the SSL has become available to all eligible student payment recipients undertaking higher education. As at 30 June 2020, the fair value of the Student Start-up Loan is estimated to be $366.9 million.

Voyages Indigenous Tourism Australia Pty Ltd

The Indigenous Land and Sea Corporation (ILSC) purchased Ayers Rock Resort (ARR) for $291.2 million in May 2011 and immediately on-sold it to its wholly owned subsidiary, Voyages Indigenous Tourism Australia Pty Ltd (Voyages), creating an intercompany loan that is partly funded by borrowings. The interest rate is set at the 90-day bank bill swap reference rate plus 5 per cent, and is reset six-monthly. As at 30 June 2020, the outstanding loan was estimated to total $281 million.

Zero Real Interest Loans

The Zero Real Interest Loans program provided loans to assist aged care providers to build or extend residential aged care services in areas of high need. Loans provided under the program attract an interest rate equivalent to the change in the All Groups Consumer Price Index (updated quarterly). Four funding rounds were completed, with the final round of offers finalised in 2013. No further loans will be allocated under the program. At 30 June 2020, the total amount owing to the Commonwealth was $257.5 million.

International Monetary Fund — New Arrangements to Borrow

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. On 4 November 2016, the IMF Executive Board agreed to renew the NAB for an additional five-year period to 16 November 2022. The NAB helps ensure that the IMF has the resources available to

maintain stability and support recovery in the global economy. NAB funds are drawn upon by the IMF as needed to supplement the IMF's usual quota resources and will be repaid in full with interest. It is expected that the fair value of loans outstanding to Australia was approximately A$213 million as at 30 June 2020.

Affordable Housing Bond Aggregator

The Australian Government, through the Treasury, has made available a line of credit for the National Housing Finance and Investment Corporation's (NHFIC) Affordable Housing Bond Aggregator (AHBA). The provision of funds will be in accordance with appropriations under the *National Housing Finance and Investment Corporation Act 2018.* The line of credit is ongoing and funds borrowed will be repaid with interest. The Treasury manages the receipt of interest and principal repayments from the NHFIC.

Papua New Guinea Liquefied Natural Gas

The loan in support of the Papua New Guinea Liquefied Natural Gas (PNG LNG) project involves the development, construction, operation and maintenance of a LNG liquefaction plant, gas production and processing facilities, onshore and offshore pipelines, associated ancillary facilities and infrastructure. As at 30 June 2020, the fair value of the loan amount outstanding is estimated to total $244.3 million.

Statement 10: Australian Government Budget Financial Statements

Consistent with the *Charter of Budget Honesty Act 1998* (the Charter), the Government has produced a single set of financial statements for the Australian Government general government sector (GGS), the public non-financial corporations (PNFC) sector, the total non-financial public sector (NFPS) and the public financial corporations (PFC) sector. The financial statements comply with both the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) and Australian Accounting Standards (AAS), with departures disclosed. These statements are:

- an operating statement, including other economic flows, which shows net operating balance and net lending/borrowing (fiscal balance)
- a balance sheet, which also shows net worth, net financial worth, net financial liabilities and net debt
- a cash flow statement, which includes the calculation of the underlying cash balance.

In addition to these general purpose statements, notes to the financial statements are required. These notes include a summary of accounting policies, disaggregated information and other disclosures required by AAS.

The statements reflect the policy that the ABS GFS remains the basis of budget accounting policy, except where the Government applies AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

The Australian, state and territory governments have an agreed framework — the Uniform Presentation Framework (UPF) — for the presentation of government financial information on a basis broadly consistent with the Australian Accounting Standards Board standard AASB 1049. The financial statements are consistent with the requirements of the UPF.

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Statement 10: Australian Government Budget Financial Statements

Table 1: Australian Government general government sector operating statement

		Actual	Estimates			
		2019-20	2020-21	2021-22	2022-23	2023-24
	Note	$m	$m	$m	$m	$m
Revenue						
Taxation revenue	3	447,526	434,913	424,797	454,348	499,247
Sales of goods and services	4	14,789	15,874	17,161	17,811	18,988
Interest income	5	3,689	4,181	4,008	3,745	3,601
Dividend income	5	8,367	6,419	7,454	4,817	6,302
Other	6	11,907	11,054	10,651	10,680	9,962
Total revenue		**486,278**	**472,442**	**464,072**	**491,400**	**538,100**
Expenses						
Gross operating expenses						
Wages and salaries(a)	7	20,721	21,593	21,575	21,447	21,599
Superannuation	7	12,246	12,433	6,213	6,272	6,315
Depreciation and amortisation	8	11,765	12,037	12,705	12,543	13,331
Supply of goods and services	9	125,264	150,520	149,270	153,073	158,982
Other operating expenses(a)	7	8,583	8,342	7,780	7,905	7,996
Total gross operating expenses		*178,579*	*204,925*	*197,541*	*201,241*	*208,223*
Superannuation interest expense	7	7,673	7,004	11,731	12,063	12,393
Interest expenses(b)	10	18,463	19,821	19,951	20,462	20,972
Current transfers						
Current grants	11	149,799	157,257	161,001	166,067	172,288
Subsidy expenses		67,641	99,546	17,178	14,224	14,840
Personal benefits	12	144,715	165,845	142,189	143,481	150,832
Total current transfers		*362,154*	*422,649*	*320,368*	*323,772*	*337,959*
Capital transfers	11					
Mutually agreed write-downs		3,114	1,496	1,516	1,631	1,664
Other capital grants		8,567	14,435	16,384	15,739	15,408
Total capital transfers		*11,681*	*15,931*	*17,900*	*17,370*	*17,072*
Total expenses		**578,549**	**670,330**	**567,491**	**574,907**	**596,619**
Net operating balance		**-92,271**	**-197,888**	**-103,420**	**-83,507**	**-58,519**
Other economic flows – included in operating result						
Net write-downs of assets		-8,586	-5,859	-6,448	-6,800	-7,027
Assets recognised for the first time		153	173	191	213	234
Actuarial revaluations		-8,007	111	90	79	70
Net foreign exchange gains		-4,447	-59	0	70	27
Net swap interest received		-563	0	0	0	0
Market valuation of debt		-9,193	5,815	6,270	4,927	4,308
Other gains/(losses)(b)		-3,414	7,639	6,089	6,423	7,527
Total other economic flows – included in operating result		**-34,056**	**7,821**	**6,191**	**4,911**	**5,140**
Operating Result(c)		**-126,327**	**-190,068**	**-97,229**	**-78,596**	**-53,378**

Table 1: Australian Government general government sector operating statement (continued)

	Note	Actual	Estimates			
		2019-20	2020-21	2021-22	2022-23	2023-24
	Note	$m	$m	$m	$m	$m
Non-owner movements in equity						
Revaluation of equity investments		6,951	-4,415	9	12	71
Actuarial revaluations		54	54	121	159	181
Other economic revaluations		2,554	-269	-84	-69	-58
Total other economic flows - included in equity		**9,558**	**-4,630**	**46**	**103**	**195**
Comprehensive result - Total change in net worth		**-116,769**	**-194,698**	**-97,182**	**-78,493**	**-53,184**
Net operating balance		**-92,271**	**-197,888**	**-103,420**	**-83,507**	**-58,519**
Net acquisition of non-financial assets						
Purchases of non-financial assets		15,876	18,904	22,597	23,343	23,927
less Sales of non-financial assets		1,400	467	243	171	207
less Depreciation		11,765	12,037	12,705	12,543	13,331
plus Change in inventories		1,293	1,422	257	384	430
plus Other movements in non-financial assets		2	-4	0	0	0
Total net acquisition of non-financial assets		**4,005**	**7,818**	**9,906**	**11,013**	**10,819**
Fiscal balance (Net lending/borrowing)(d)		**-96,277**	**-205,706**	**-113,326**	**-94,520**	**-69,338**

(a) Consistent with the ABS GFS classification, other employee related expenses are classified separately from wages and salaries under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
(b) From 2020-21, the value of Debt Not Expected to be Repaid on initial recognition of income contingent concessional loans is reported as *Other Financing costs* rather than as a valuation adjustment. This change is consistent with Australian Accounting Standards and brings the accounting treatment of income contingent concessional loans into line with other concessional loans.
(c) Operating result under AAS.
(d) The term fiscal balance is not used by the ABS.

Table 2: Australian Government general government sector balance sheet

		Actual	Estimates			
		2019-20	2020-21	2021-22	2022-23	2023-24
	Note	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits		9,453	5,780	6,009	6,707	6,035
Advances paid	13	82,045	87,054	89,173	90,646	71,727
Investments, loans and placements	14	239,749	218,509	253,798	231,192	235,924
Other receivables	13	75,398	67,027	71,484	71,856	76,148
Equity investments						
Investments in other public sector entities		65,344	63,617	66,282	70,302	74,762
Equity accounted investments		3,424	3,547	3,608	3,664	3,742
Investments — shares		58,717	67,416	70,611	74,010	78,195
Total financial assets		*534,131*	*512,949*	*560,965*	*548,375*	*546,534*
Non-financial assets	15					
Land		11,715	11,742	11,757	11,824	11,793
Buildings		43,419	43,521	44,392	46,484	48,386
Plant, equipment and infrastructure		88,973	94,047	101,632	108,991	116,761
Inventories		9,935	11,047	10,959	10,958	10,946
Intangibles		9,101	10,135	10,921	11,496	11,975
Investment properties		208	218	218	218	218
Biological assets		31	28	16	16	16
Heritage and cultural assets		11,976	11,994	11,986	11,985	11,979
Assets held for sale		270	241	241	241	241
Other non-financial assets		37	34	34	34	34
Total non-financial assets		*175,666*	*183,007*	*192,155*	*202,247*	*212,348*
Total assets		**709,796**	**695,956**	**753,120**	**750,622**	**758,882**
Liabilities						
Interest bearing liabilities						
Deposits held		484	484	484	484	484
Government securities		784,973	978,283	1,124,116	1,191,329	1,243,538
Loans	16	17,132	16,928	16,941	16,951	16,934
Lease liabilities		19,876	18,893	19,565	19,572	18,899
Total interest bearing liabilities		*822,464*	*1,014,588*	*1,161,106*	*1,228,335*	*1,279,855*

Table 2: Australian Government general government sector balance sheet (continued)

		Actual	Estimates			
		2019-20	2020-21	2021-22	2022-23	2023-24
	Note	$m	$m	$m	$m	$m
Provisions and payables						
Superannuation liability	17	430,105	236,690	243,412	250,148	256,790
Other employee liabilities	17	32,262	33,097	33,803	34,573	35,379
Suppliers payables	18	7,396	8,033	8,737	9,112	9,251
Personal benefits payables	18	4,670	3,146	3,023	2,956	3,565
Subsidies payables	18	1,041	998	1,395	1,419	1,447
Grants payables	18	2,847	2,908	2,576	2,310	2,533
Other payables	18	4,580	2,351	2,356	2,407	2,411
Provisions	18	69,323	51,575	51,325	52,466	53,937
Total provisions and payables		*552,224*	*338,798*	*346,626*	*355,391*	*365,315*
Total liabilities		**1,374,688**	**1,353,385**	**1,507,732**	**1,583,727**	**1,645,169**
Net worth(a)		**-664,892**	**-657,429**	**-754,611**	**-833,104**	**-886,288**
Net financial worth(b)		*-840,557*	*-840,436*	*-946,766*	*-1,035,351*	*-1,098,636*
Net financial liabilities(c)		*905,902*	*904,053*	*1,013,048*	*1,105,653*	*1,173,398*
Net debt(d)		*491,217*	*703,245*	*812,125*	*899,791*	*966,168*

(a) Net worth equals total assets minus total liabilities.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.
(d) Net debt is the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits, advances paid, and investments, loans and placements).

Table 3: Australian Government general government sector cash flow statement[(a)]

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Cash receipts from operating activities					
Taxes received	431,775	424,643	413,799	442,912	487,645
Receipts from sales of goods and services	15,490	16,538	17,418	17,945	19,148
Interest receipts	3,244	4,133	4,202	4,221	4,475
Dividends and income tax equivalents	7,007	6,837	6,687	7,733	5,123
Other receipts	10,159	11,140	9,568	9,665	9,766
Total operating receipts	**467,674**	**463,291**	**451,674**	**482,475**	**526,157**
Cash payments for operating activities					
Payments to employees(b)	-30,293	-32,530	-32,590	-32,796	-33,403
Payments for goods and services	-126,589	-148,237	-147,606	-150,936	-157,804
Grants and subsidies paid	-210,772	-285,970	-195,001	-195,821	-201,865
Interest paid	-16,524	-17,230	-17,655	-17,333	-18,122
Personal benefit payments	-143,073	-166,482	-142,858	-144,133	-150,869
Other payments(b)	-6,989	-7,543	-7,130	-7,174	-7,239
Total operating payments	**-534,240**	**-657,992**	**-542,839**	**-548,193**	**-569,302**
Net cash flows from operating activities	**-66,566**	**-194,701**	**-91,165**	**-65,719**	**-43,146**
Cash flows from investments in non-financial assets					
Sales of non-financial assets	1,724	473	244	172	206
Purchases of non-financial assets	-13,032	-17,075	-18,686	-19,929	-21,591
Net cash flows from investments in non-financial assets	**-11,308**	**-16,601**	**-18,442**	**-19,757**	**-21,384**
Net cash flows from investments in financial assets for policy purposes	**-13,632**	**-16,375**	**-11,765**	**-12,871**	**10,739**
Net cash flows from investments in financial assets for liquidity purposes	**-53,639**	**27,799**	**-27,834**	**30,377**	**-703**
Cash receipts from financing activities					
Borrowing	229,205	689,937	754,034	659,158	501,445
Other financing	4,474	24	11	13	16
Total cash receipts from financing activities	**233,679**	**689,961**	**754,045**	**659,172**	**501,461**
Cash payments for financing activities					
Borrowing	-77,802	-486,626	-596,022	-580,527	-439,025
Other financing	-9,885	-7,129	-8,587	-9,977	-8,614
Total cash payments for financing activities	**-87,687**	**-493,755**	**-604,609**	**-590,504**	**-447,639**
Net cash flows from financing activities	**145,992**	**196,206**	**149,436**	**68,667**	**53,822**
Net increase/(decrease) in cash held	**846**	**-3,673**	**230**	**698**	**-671**

Table 3: Australian Government general government sector cash flow statement (continued)[(a)]

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
GFS cash surplus(+)/deficit(-)(c)	**-77,874**	**-211,303**	**-109,607**	**-85,475**	**-64,530**
plus Net cash flows from financing activities for leases(d)	-2,361	-2,351	-2,395	-2,408	-2,396
less Net Future Fund earnings(e)	5,036	na	na	na	na
Equals underlying cash balance(f)	**-85,272**	**-213,654**	**-112,003**	**-87,883**	**-66,926**
plus Net cash flows from investments in financial assets for policy purposes	-13,632	-16,375	-11,765	-12,871	10,739
plus Net Future Fund earnings(e)	5,036	na	na	na	na
Equals headline cash balance	**-93,868**	**-230,029**	**-123,767**	**-100,754**	**-56,187**
Memorandum:					
Net Future Fund earnings(e)	5,036	3,652	3,802	4,022	4,276

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Consistent with the ABS GFS classification, other employee related payments are classified separately from wages and salaries under other payments.
(c) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.
(d) Principal payments on lease liabilities, which are cash flows from financing activities, are deducted in the calculation of the underlying cash balance to maintain consistency of measure following the implementation of AASB 16.
(e) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability from 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(f) The term underlying cash balance is not used by the ABS.

Table 4: Australian Government public non-financial corporations sector operating statement

	Actual	Estimates
	2019-20	2020-21
	$m	$m
Revenue		
Current grants and subsidies	321	794
Sales of goods and services	16,618	16,131
Interest income	38	15
Other	51	47
Total revenue	**17,029**	**16,987**
Expenses		
Gross operating expenses		
Wages and salaries(a)	4,542	4,494
Superannuation	526	498
Depreciation and amortisation	4,564	5,116
Supply of goods and services	10,696	8,687
Other operating expenses(a)	716	819
Total gross operating expenses	*21,044*	*19,613*
Interest expenses	1,639	1,832
Other property expenses	283	242
Current transfers		
Tax expenses	208	120
Total current transfers	*208*	*120*
Total expenses	**23,174**	**21,807**
Net operating balance	**-6,145**	**-4,820**
Other economic flows	**-442**	**5,751**
Comprehensive result — Total change in net worth excluding contribution from owners	**-6,587**	**931**
Net acquisition of non-financial assets		
Purchases of non-financial assets	8,751	8,006
less Sales of non-financial assets	236	0
less Depreciation	4,564	5,116
plus Change in inventories	-1	4
plus Other movements in non-financial assets	0	0
Total net acquisition of non-financial assets	**3,951**	**2,894**
Fiscal balance (Net lending/borrowing)(b)	**-10,096**	**-7,714**

(a) Consistent with the ABS GFS classification, other employee related expenses are classified separately from wages and salaries under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
(b) The term fiscal balance is not used by the ABS.

Table 5: Australian Government public non-financial corporations sector balance sheet

	Actual	Estimates
	2019-20	2020-21
	$m	$m
Assets		
Financial assets		
Cash and deposits	2,261	1,009
Investments, loans and placements(a)	421	448
Other receivables(a)	3,169	2,975
Equity investments	188	201
Total financial assets	*6,039*	*4,633*
Non-financial assets		
Land and other fixed assets	55,674	64,133
Other non-financial assets(b)	4,082	3,976
Total non-financial assets	*59,756*	*68,109*
Total assets	**65,795**	**72,742**
Liabilities		
Interest bearing liabilities		
Deposits held	10	13
Advances received and loans(a)	25,050	29,155
Lease liabilities	12,574	12,549
Total interest bearing liabilities	*37,634*	*41,717*
Provisions and payables		
Superannuation liability	28	19
Other employee liabilities	1,935	1,980
Other payables(a)	5,744	5,268
Other provisions(b)	952	801
Total provisions and payables	*8,659*	*8,068*
Total liabilities	**46,293**	**49,785**
Shares and other contributed capital	**19,502**	**22,957**
Net worth(c)	**19,502**	**22,957**
Net financial worth(d)	*-40,254*	*-45,152*
Net debt(e)	*34,952*	*40,260*

(a) Since the 2019-20 FBO, derivative assets and liabilities have been reclassified from interest bearing assets and liabilities to non-interest bearing assets and liabilities and are no longer included in the calculation of net debt.
(b) Excludes the impact of commercial taxation adjustments.
(c) Under AASB 1049, net worth equals total assets minus total liabilities. Under the ABS GFS, net worth equals total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(d) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under the ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(e) Net debt is the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits, and investments, loans and placements).

Table 6: Australian Government public non-financial corporations sector cash flow statement[(a)]

	Actual	Estimates
	2019-20	2020-21
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	17,739	17,365
Grants and subsidies received	264	745
GST input credit receipts	695	1,159
Other receipts	31	75
Total operating receipts	**18,729**	**19,344**
Cash payments for operating activities		
Payments to employees(b)	-4,903	-5,796
Payment for goods and services	-12,276	-11,076
Interest paid	-1,445	-1,810
GST payments to taxation authority	-380	-717
Distributions paid(c)	-286	-244
Other payments(b)	-820	-23
Total operating payments	**-20,109**	**-19,665**
Net cash flows from operating activities	**-1,379**	**-321**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	95	0
Purchases of non-financial assets	-7,749	-7,259
Net cash flows from investments in non-financial assets	**-7,654**	**-7,259**
Net cash flows from investments in financial assets for policy purposes	**-3**	**-3**
Net cash flows from investments in financial assets for liquidity purposes	**-61**	**-30**
Net cash flows from financing activities		
Borrowing (net)	8,483	4,109
Other financing (net)	797	2,253
Net cash flows from financing activities	**9,279**	**6,362**
Net increase/(decrease) in cash held	**182**	**-1,252**
Cash at the beginning of the year	**2,078**	**2,261**
Cash at the end of the year	**2,261**	**1,009**
GFS cash surplus(+)/deficit(-)(d)	**-9,033**	**-7,580**
plus Net cash flows from financing activities for leases(e)	-386	-389
Adjusted GFS cash surplus(+)/deficit(-)(e)	**-9,419**	**-7,969**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Consistent with the ABS GFS classification, other employee related payments are classified separately from wages and salaries under other payments.
(c) Consistent with the ABS GFS classification, distributions paid by public corporations were reclassified from cash flows from financing activities to cash flows from operating activities from the 2019-20 FBO.
(d) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.
(e) To retain a consistent measure of the GFS cash surplus/deficit following the implementation of AASB 16, its calculation is adjusted to include the principal payments on lease liabilities.

Table 7: Australian Government total non-financial public sector operating statement

	Actual	Estimates
	2019-20	2020-21
	$m	$m
Revenue		
Taxation revenue	447,619	434,437
Sales of goods and services	30,291	31,135
Interest income	3,087	3,462
Dividend income	8,084	6,178
Other	11,880	11,100
Total revenue	**500,961**	**486,311**
Expenses		
Gross operating expenses		
Wages and salaries(a)	25,262	26,087
Superannuation	12,767	12,931
Depreciation and amortisation	16,329	17,153
Supply of goods and services	134,726	158,322
Other operating expenses(a)	9,300	9,161
Total gross operating expenses	*198,384*	*223,654*
Superannuation interest expense	7,674	7,004
Interest expenses(b)	19,462	20,918
Current transfers		
Current grants	149,799	157,257
Subsidy expenses	67,380	98,605
Personal benefits	144,715	165,845
Total current transfers	*361,893*	*421,708*
Capital transfers	11,670	15,733
Total expenses	**599,083**	**689,016**
Net operating balance	**-98,122**	**-202,705**
Other economic flows(b)	**-30,818**	**9,598**
Comprehensive result - Total change in net worth	**-128,940**	**-193,106**
Net acquisition of non-financial assets		
Purchases of non-financial assets	24,619	26,910
less Sales of non-financial assets	1,636	467
less Depreciation	16,329	17,153
plus Change in inventories	1,292	1,425
plus Other movements in non-financial assets	2	-4
Total net acquisition of non-financial assets	**7,947**	**10,711**
Fiscal balance (Net lending/borrowing)(c)	**-106,069**	**-213,416**

(a) Consistent with the ABS GFS classification, other employee related expenses are classified separately from wages and salaries under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.

(b) From 2020-21, the value of Debt Not Expected to be Repaid on initial recognition of income contingent concessional loans is reported as *Other Financing costs* rather than as a valuation adjustment. This change is consistent with Australian Accounting Standards and brings the accounting treatment of income contingent concessional loans into line with other concessional loans.

(c) The term fiscal balance is not used by the ABS.

Table 8: Australian Government total non-financial public sector balance sheet

	Actual	Estimates
	2019-20	2020-21
	$m	$m
Assets		
Financial assets		
Cash and deposits	11,711	6,789
Advances paid	62,319	67,245
Investments, loans and placements(a)	240,154	218,987
Other receivables(a)	78,382	69,393
Equity investments	93,146	98,422
Total financial assets	*485,711*	*460,837*
Non-financial assets		
Land and other fixed assets	221,684	236,477
Other non-financial assets	13,780	14,682
Total non-financial assets	*235,464*	*251,159*
Total assets	**721,175**	**711,995**
Liabilities		
Interest bearing liabilities		
Deposits held	491	496
Government securities	784,973	978,283
Advances received and loans(a)	22,440	26,306
Lease liabilities	32,443	31,435
Total interest bearing liabilities	*840,346*	*1,036,520*
Provisions and payables		
Superannuation liability	430,133	236,709
Other employee liabilities	34,197	35,077
Other payables(a)	26,166	22,198
Other provisions	70,250	52,353
Total provisions and payables	*560,745*	*346,336*
Total liabilities	**1,401,091**	**1,382,857**
Net worth(b)	**-679,916**	**-670,861**
Net financial worth(c)	*-915,380*	*-922,020*
Net debt(d)	*526,162*	*743,499*

(a) Since the 2019-20 FBO, derivative assets and liabilities have been reclassified from interest bearing assets and liabilities to non-interest bearing assets and liabilities and are no longer included in the calculation of net debt.
(b) Under AASB 1049, net worth equals total assets minus total liabilities. Under the ABS GFS, net worth equals total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(c) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under the ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(d) Net debt is the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits, advances paid, and investments, loans and placements).

Table 9: Australian Government total non-financial public sector cash flow statement[(a)]

	Actual	Estimates
	2019-20	2020-21
	$m	$m
Cash receipts from operating activities		
Taxes received	431,651	424,579
Receipts from sales of goods and services	30,532	31,887
Interest receipts	2,632	3,475
Dividends and income tax equivalents	6,725	6,597
Other receipts	10,002	11,085
Total operating receipts	**481,543**	**477,623**
Cash payments for operating activities		
Payments to employees(b)	-35,191	-38,326
Payments for goods and services	-135,737	-156,893
Grants and subsidies paid	-210,503	-285,193
Interest paid	-17,333	-18,314
Personal benefit payments	-143,073	-166,482
Other payments(b)	-7,652	-7,438
Total operating payments	**-549,490**	**-672,645**
Net cash flows from operating activities	**-67,947**	**-195,022**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	1,819	473
Purchases of non-financial assets	-20,781	-24,334
Net cash flows from investments in non-financial assets	**-18,961**	**-23,860**
Net cash flows from investments in financial assets for policy purposes	**-6,202**	**-13,923**
Net cash flows from investments in financial assets for liquidity purposes	**-53,704**	**27,773**
Net cash flows from financing activities		
Borrowing (net)	153,480	207,388
Other financing (net)	-5,640	-7,276
Net cash flows from financing activities	**147,839**	**200,112**
Net increase/(decrease) in cash held	**1,025**	**-4,922**
Cash at the beginning of the year	**10,685**	**11,711**
Cash at the end of the year	**11,711**	**6,789**
GFS cash surplus(+)/deficit(-)(c)	**-86,908**	**-218,883**
plus Net cash flows from financing activities for leases(d)	-2,747	-2,740
Adjusted GFS cash surplus(+)/deficit(-)(d)	**-89,656**	**-221,623**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Consistent with the ABS GFS classification, other employee related payments are classified separately from wages and salaries under other payments.
(c) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.
(d) To retain a consistent measure of the GFS cash surplus/deficit following the implementation of AASB 16, its calculation is adjusted to include the principal payments on lease liabilities.

Table 10: Australian Government public financial corporations sector operating statement

	Actual	Estimates
	2019-20	2020-21
	$m	$m
Revenue		
Current grants and subsidies	166	174
Sales of goods and services	812	821
Interest income	2,044	3,283
Other	68	94
Total revenue	**3,090**	**4,372**
Expenses		
Gross operating expenses		
Wages and salaries(a)	219	207
Superannuation	97	77
Depreciation and amortisation	82	69
Supply of goods and services	455	515
Other operating expenses(a)	58	57
Total gross operating expenses	*911*	*924*
Interest expenses	609	416
Other property expenses	2,590	2,189
Current transfers		
Tax expenses	7	6
Total current transfers	*7*	*6*
Total expenses	**4,117**	**3,534**
Net operating balance	**-1,028**	**838**
Other economic flows	**2,005**	**-4,544**
Comprehensive result - Total change in net worth excluding contribution from owners	**977**	**-3,076**
Net acquisition of non-financial assets		
Purchases of non-financial assets	66	1
less Sales of non-financial assets	3	0
less Depreciation	82	69
plus Change in inventories	14	0
plus Other movements in non-financial assets	0	0
Total net acquisition of non-financial assets	**-4**	**-67**
Fiscal balance (Net lending/borrowing)(b)	**-1,023**	**905**

(a) Consistent with the ABS GFS classification, other employee related expenses are classified separately from wages and salaries under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.

(b) The term fiscal balance is not used by the ABS.

Table 11: Australian Government public financial corporations sector balance sheet(a)

	Actual	Estimates
	2019-20	2020-21
	$m	$m
Assets		
Financial assets		
Cash and deposits	1,419	1,300
Investments, loans and placements(b)	283,381	279,681
Other receivables(b)	204	180
Equity investments	680	675
Total financial assets	*285,684*	*281,836*
Non-financial assets		
Land and other fixed assets	900	894
Other non-financial assets(c)	96	96
Total non-financial assets	*995*	*990*
Total assets	**286,679**	**282,826**
Liabilities		
Interest bearing liabilities		
Deposits held	244,380	244,383
Borrowing(b)	5,224	5,559
Total interest bearing liabilities	*249,605*	*249,942*
Provisions and payables		
Superannuation liability	944	944
Other employee liabilities	228	229
Other payables(b)	3,277	2,665
Other provisions(c)	1,737	1,854
Total provisions and payables	*6,186*	*5,692*
Total liabilities	**255,791**	**255,633**
Shares and other contributed capital	**30,888**	**27,192**
Net worth(d)	**30,888**	**27,192**
Net financial worth(e)	*29,893*	*26,202*
Net debt(f)	*-35,195*	*-31,039*

(a) Assumes no valuation or currency movement.
(b) Since the 2019-20 FBO, derivative assets and liabilities have been reclassified from interest bearing assets and liabilities to non-interest bearing assets and liabilities and are no longer included in the calculation of net debt.
(c) Excludes the impact of commercial taxation adjustments.
(d) Under AASB 1049, net worth equals total assets minus total liabilities. Under the ABS GFS, net worth equals total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(e) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under the ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(f) Net debt is the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits, and investments, loans and placements).

Table 12: Australian Government public financial corporations sector cash flow statement[(a)]

	Actual	Estimates
	2019-20	2020-21
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	778	826
Grants and subsidies received	165	174
GST input credit receipts	20	1
Interest receipts	1,725	3,271
Other receipts	35	14
Total operating receipts	**2,724**	**4,286**
Cash payments for operating activities		
Payments to employees(b)	-258	-286
Payment for goods and services	-451	-658
Interest paid	-553	-383
GST payments to taxation authority	-18	-16
Distributions paid(c)	-1,708	-2,583
Other payments(b)	-62	-56
Total operating payments	**-3,051**	**-3,982**
Net cash flows from operating activities	**-327**	**304**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	0	0
Purchases of non-financial assets	-55	-2
Net cash flows from investments in non-financial assets	**-55**	**-2**
Net cash flows from investments in financial assets for policy purposes	**-1,251**	**-216**
Net cash flows from investments in financial assets for liquidity purposes(d)	**-95,186**	**-823**
Net cash flows from financing activities		
Borrowing and deposits received (net)(d)	85,831	518
Other financing (net)	10,174	100
Net cash flows from financing activities	**96,005**	**618**
Net increase/(decrease) in cash held	**-814**	**-119**
Cash at the beginning of the year	**2,233**	**1,419**
Cash at the end of the year	**1,419**	**1,300**
GFS cash surplus(+)/deficit(-)(e)	**-382**	**302**
plus Net cash flows from financing activities for leases(f)	-5	-1
Adjusted GFS cash surplus(+)/deficit(-)(f)	**-387**	**301**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Consistent with the ABS GFS classification, other employee related payments are classified separately from wages and salaries under other payments.
(c) Consistent with the ABS GFS classification, distributions paid by public corporations were reclassified from cash flows from financing activities to cash flows from operating activities in the 2019-20 FBO.
(d) Assumes no cash flows associated with valuation or currency movements.
(e) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.
(f) To retain a consistent measure of the GFS cash surplus/deficit following the implementation of AASB 16, its calculation is adjusted to include the principal payments on lease liabilities.

Notes to the general government sector financial statements

Note 1: External reporting standards and accounting policies

The *Charter of Budget Honesty Act 1998* (the Charter) requires that the Budget be based on external reporting standards and that departures from applicable external reporting standards be identified.

The external standards used for budget reporting purposes are:

- the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) publication, *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2015* (cat. no. 5514.0), which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and

- the Australian Accounting Standards (AAS), issued by the Australian Accounting Standards Board (AASB), which includes International Financial Reporting Standards as adopted in Australia and the public sector specific standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

The financial statements have been prepared on an accrual basis that complies with both the ABS GFS and AAS, except for departures disclosed at Note 2. A more detailed description of the AAS and the ABS GFS frameworks, in addition to definitions of key terms used in these frameworks, can be found in Appendix A. Detailed accounting policies, as well as a set of notes and other disclosures, as required by AAS, are disclosed in the Australian Government Consolidated Financial Statements.

Fiscal reporting focuses on the general government sector (GGS). The GGS provides public services that are mainly non-market in nature and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies. This sector comprises all government departments, offices and some other bodies. In preparing financial statements for the GGS, all material transactions and balances between entities within the GGS have been eliminated.

The Government's key fiscal aggregates are based on the ABS GFS concepts and definitions, including the ABS GFS cash surplus/deficit and the derivation of the underlying cash balance and net financial worth. AASB 1049 requires the disclosure of other ABS GFS fiscal aggregates, including the net operating balance, net lending/borrowing (fiscal balance) and net worth. In addition to these ABS GFS aggregates, the Uniform Presentation Framework (UPF) requires disclosure of net debt, net financial worth and net financial liabilities.

AASB 1049 and the UPF also provide a basis for reporting of the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors and the total non-financial public sector (NFPS).

AASB 1049 requires disaggregated information, by ABS GFS function, for expenses and total assets to be disclosed where they are reliably attributable. The ABS GFS does not require total assets to be attributed to functions. In accordance with the ABS GFS, disaggregated information for expenses and net acquisition of non-financial assets by function is disclosed in *Statement 6: Expenses and Net Capital Investment*. In accordance with the UPF, purchases of non-financial assets by function are also disclosed in *Statement 6*.

AASB 1055 *Budgetary Reporting* requires major variances between original budget estimates and outcomes to be explained in the financial statements. Explanations of variances in fiscal balance, revenue, expenses, net capital investment, cash flows, net debt, net financial worth and net worth since the *Mid-Year Economic and Fiscal Outlook 2019-20* (MYEFO) are disclosed in *Statement 3: Fiscal Strategy and Outlook*, with decisions taken since the MYEFO disclosed in Budget Paper No. 2 *Budget Measures 2020-21*. All policy decisions taken between the 2019-20 Budget and the 2019-20 MYEFO are disclosed in Appendix A of the MYEFO.

Details of the Australian Government's GGS contingent liabilities are disclosed in *Statement 9: Statement of Risks*.

Note 2: Departures from external reporting standards

The Charter requires that departures from applicable external reporting standards be identified. The major differences between AAS and the ABS GFS treatments of transactions are outlined in Table 13.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements with reconciliation to the ABS GFS measurement of key fiscal aggregates, where different, in notes to the financial statements. Differences from the AAS measurement of items outlined above and reconciliation have not been included as they would effectively create different measures of the same aggregate.

Further information on the differences between the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, 2015 (cat. no. 5514.0).

Table 13: Major differences between AAS and ABS GFS

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Circulating coins — seigniorage	The profit between the cost and sale of circulating coins (seigniorage) is treated as revenue.	Circulating coins is treated as a liability, and the cost of producing the coins is treated as an expense.	AAS
Valuation of loans	Changes in the valuation of loans are treated as a revenue or an expense. In some circumstances recognition as a revenue or an expense is delayed until the loan ends or is transferred.	Changes in the valuation of loans (excluding mutually agreed write-downs) are treated as an other economic flow.	ABS GFS
Timing recognition of Boosting Cash Flows for Employers	Expense recognition based on underlying economic activity that gives rise to the Cash Flow Boost payment. At 30 June 2020, an accrual is made for estimated payments that relate to the 2019-20 economic activity, for Activity Statements that have not yet been submitted.	Recognised when the businesses receive payments after submitting their activity statements and having met all requirements.	AAS
Leases	AASB 16 introduced a single lease accounting framework for lessees, which replaced the distinction between operating and finance leases. Right of use assets and lease liabilities are recognised on the balance sheets for leases that were previously accounted for as operating expense.	The distinction between operating leases and finance leases will be continued for lessees.	AAS
Concessional loans	Concessional elements are treated as an expense on initial recognition and unwound over the loan term.	Concessional elements are treated as an other economic flow.	AAS
Investment in other public sector entities	Valued at fair value in the balance sheet as long as it can be reliably measured, otherwise net assets is permissible.	Unlisted entities valued based on their net assets in the balance sheet.	AAS
Provision for restoration, decommissioning and make-good	Capitalised when the asset is acquired.	Capitalised when make-good activity takes place.	AAS
Renewable Energy Certificates (RECs)	The issuance and registration of RECs is considered to be an administrative function and does not result in the recognition of assets or liabilities and, consequently, no revenue or expenses are recognised.	The issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.	AAS
Dividends paid by public corporations	Treated as an equity distribution. Equity distributions are treated as a distribution of profits, as opposed to an expense.	Dividends are treated as an expense.	ABS GFS

Table 13: Major differences between AAS and ABS GFS continued)

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Dividends paid by the Reserve Bank of Australia	Dividends are recognised in the year profit was earned.	Dividends are recognised when the Treasurer makes a determination.	AAS
National Disability Insurance Scheme (NDIS) revenue	Funding contributions by the state and territory governments to NDIS are treated as sales of goods and services revenue. In-kind disability services provided by the state and territory governments are treated as other revenue.	Funding contributions by the state and territory governments to NDIS are treated as grants revenue. In-kind disability services provided by the state and territory governments are treated as sales of goods and services revenue.	AAS
Commercial tax effect accounting assets and liabilities	Corporations in the PNFC and PFC sectors record tax expenses on a commercial basis.	Deferred tax assets and liabilities are reversed so that corporations record tax expenses on a consistent basis to the Australian Taxation Office.	ABS GFS
Fiscal aggregates differences			
Net worth of PNFC and PFC sectors	Calculated as assets less liabilities.	Calculated as assets less liabilities less shares and other contributed capital.	AAS
Net financial worth of PNFC and PFC sectors	Calculated as financial assets less total liabilities.	Calculated as financial assets less total liabilities less shares and contributed capital.	AAS
Classification differences			
Prepayments	Treated as a non-financial asset.	Treated as a financial asset.	ABS GFS
Spectrum sales	Recognise non-financial asset sale (lessor finance leases) for fiscal balance when licences take effect, which may be after the auction of licences, as this is regarded as the point at which control is transferred. Recognise cash at the time of receipt.	Recognise non-financial asset sale for fiscal balance at time of auction as this is regarded as the point at which control is transferred. Recognise cash at the time of receipt.	AAS

Note 3: Taxation revenue by type

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Individuals and other withholding taxes					
Gross income tax withholding	217,095	212,300	211,400	220,900	233,600
Gross other individuals	48,855	47,300	44,900	50,100	54,400
less: Refunds	36,219	37,400	42,700	31,500	34,500
Total individuals and other withholding taxation	229,731	222,200	213,600	239,500	253,500
Fringe benefits tax	3,939	3,880	3,860	4,030	4,270
Company tax	87,846	86,200	73,000	69,100	93,900
Superannuation fund taxes	6,621	8,180	12,770	13,420	13,420
Petroleum resource rent tax(a)	921	870	900	900	900
Income taxation revenue	**329,058**	**321,330**	**304,130**	**326,950**	**365,990**
Goods and services tax	65,287	62,970	67,720	72,560	76,560
Wine equalisation tax	1,040	1,060	1,020	1,050	1,080
Luxury car tax	632	540	540	560	580
Excise and Custom duty					
Petrol	5,676	5,550	5,850	6,200	6,500
Diesel	11,923	11,880	12,440	12,940	13,590
Other fuel products	1,907	1,690	1,870	1,950	2,020
Tobacco	15,981	15,270	15,150	15,160	15,340
Beer	2,434	2,460	2,390	2,460	2,540
Spirits	2,641	2,670	2,620	2,690	2,770
Other alcoholic beverages(b)	1,048	1,050	1,000	1,030	1,060
Other customs duty					
Textiles, clothing and footwear	169	170	190	160	160
Passenger motor vehicles	369	310	340	100	80
Other imports	1,143	1,050	1,120	830	820
less: Refunds and drawbacks	669	500	500	500	500
Total excise and customs duty	42,622	41,600	42,470	43,020	44,380
Major bank levy	1,639	1,670	1,720	1,770	1,820
Agricultural levies	469	481	496	516	528
Other taxes	6,778	5,262	6,702	7,922	8,309
Mirror taxes	593	619	661	694	719
less: Transfers to States in relation to mirror tax revenue	593	619	661	694	719
Mirror tax revenue	0	0	0	0	0
Indirect taxation revenue	**118,467**	**113,583**	**120,667**	**127,398**	**133,257**
Taxation revenue	**447,526**	**434,913**	**424,797**	**454,348**	**499,247**

Note 3: Taxation revenue by type (continued)

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Memorandum:					
Total excise	*23,116*	*22,760*	*23,630*	*24,660*	*25,800*
Total customs duty	*19,507*	*18,840*	*18,840*	*18,360*	*18,580*
Capital gains tax(c)	*14,900*	*13,100*	*12,500*	*12,800*	*13,600*

(a) This item includes an amount of MRRT revenue in 2019-20 which has not been separately disclosed owing to taxpayer confidentiality.
(b) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes. The 2019-20 reported figure is an estimate.

Note 3(a): Taxation revenue by source

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Taxes on income, profits and capital gains					
Income and capital gains levied on individuals	233,669	226,080	217,460	243,530	257,770
Income and capital gains levied on enterprises	95,389	95,250	86,670	83,420	108,220
Total taxes on income, profits and capital gains	**329,058**	**321,330**	**304,130**	**326,950**	**365,990**
Taxes on employers' payroll and labour force	1,034	850	789	837	903
Taxes on the provision of goods and services					
Sales/goods and services tax	66,960	64,570	69,280	74,170	78,220
Excises and levies	23,585	23,241	24,126	25,176	26,328
Taxes on international trade	19,507	18,840	18,840	18,360	18,580
Total taxes on the provision of goods and services	**110,051**	**106,651**	**112,246**	**117,706**	**123,128**
Taxes on the use of goods and performance of activities	7,383	6,082	7,633	8,855	9,226
Total taxation revenue	**447,526**	**434,913**	**424,797**	**454,348**	**499,247**

Note 4: Sales of goods and services revenue

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Sales of goods	1,324	1,298	1,418	1,457	1,515
Rendering of services	11,131	12,811	13,682	14,142	15,377
Lease rental	386	71	79	84	79
Fees from regulatory services	1,947	1,694	1,982	2,129	2,018
Total sales of goods and services revenue	**14,789**	**15,874**	**17,161**	**17,811**	**18,988**

Note 5: Interest and dividend revenue

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Interest from other governments					
State and Territory debt	33	18	16	14	13
Housing agreements	87	81	77	72	67
Total interest from other governments	**120**	**99**	**92**	**86**	**80**
Interest from other sources					
Advances	987	457	538	631	689
Deposits	410	178	138	130	134
Indexation of HELP receivable and other student loans	797	24	509	851	1,034
Other	1,374	3,424	2,732	2,046	1,664
Total interest from other sources	**3,569**	**4,082**	**3,916**	**3,659**	**3,521**
Total interest	**3,689**	**4,181**	**4,008**	**3,745**	**3,601**
Dividends					
Dividends from other public sector entities	3,095	2,404	3,204	337	1,549
Other dividends	5,272	4,016	4,250	4,481	4,753
Total dividends	**8,367**	**6,419**	**7,454**	**4,817**	**6,302**
Total interest and dividend revenue	**12,055**	**10,601**	**11,462**	**8,562**	**9,903**

Note 6: Other sources of non-taxation revenue

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Industry contributions	194	182	190	191	193
Royalties	992	631	482	332	267
Seigniorage	57	47	39	40	36
Other	10,665	10,195	9,940	10,116	9,465
Total other sources of non-taxation revenue	**11,907**	**11,054**	**10,651**	**10,680**	**9,962**

Note 7: Employee and superannuation expense

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Wages and salaries expenses	**20,721**	**21,593**	**21,575**	**21,447**	**21,599**
Other operating expenses					
Leave and other entitlements	3,217	2,962	2,955	2,958	3,019
Separations and redundancies	213	59	73	63	61
Workers compensation premiums and claims	2,556	2,903	2,275	2,312	2,262
Other	2,597	2,418	2,476	2,573	2,654
Total other operating expenses	**8,583**	**8,342**	**7,780**	**7,905**	**7,996**
Superannuation expenses					
Superannuation	12,246	12,433	6,213	6,272	6,315
Superannuation interest cost	7,673	7,004	11,731	12,063	12,393
Total superannuation expenses	**19,919**	**19,436**	**17,944**	**18,335**	**18,707**
Total employee and superannuation expense	**49,223**	**49,371**	**47,298**	**47,687**	**48,303**

Note 8: Depreciation and amortisation expense

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Depreciation					
Specialist military equipment	4,615	5,065	5,680	5,530	6,287
Buildings	3,704	3,760	3,681	3,685	3,733
Other infrastructure, plant and equipment	1,973	2,016	2,094	2,062	2,058
Heritage and cultural assets	75	74	74	74	74
Other	5	6	6	6	6
Total depreciation(a)	**10,371**	**10,921**	**11,535**	**11,358**	**12,157**
Total amortisation	**1,394**	**1,116**	**1,169**	**1,185**	**1,175**
Total depreciation and amortisation expense	**11,765**	**12,037**	**12,705**	**12,543**	**13,331**
Memorandum:					
Depreciation relating to right of use assets					
Specialist military equipment	*31*	*31*	*31*	*31*	*31*
Buildings	*2,374*	*2,224*	*2,221*	*2,222*	*2,149*
Other infrastructure, plant and equipment	*348*	*333*	*331*	*342*	*333*
Other	*5*	*6*	*6*	*6*	*6*
Total depreciation of right of use assets	***2,759***	***2,595***	***2,589***	***2,601***	***2,519***

(a) Includes depreciation of right of use (leased) assets, resulting from implementation of AASB 16.

Note 9: Supply of goods and services expense

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Supply of goods and services	34,065	48,338	43,548	40,562	40,877
Lease expenses	259	204	332	312	157
Personal benefits — indirect	82,118	93,569	97,899	101,883	105,546
Health care payments	5,689	5,971	4,589	5,243	5,343
Other	3,133	2,438	2,902	5,074	7,059
Total supply of goods and services expense	**125,264**	**150,520**	**149,270**	**153,073**	**158,982**

Note 10: Interest expense

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Interest on debt					
Government securities(a)	16,742	16,724	17,334	17,743	17,781
Loans	2	2	4	4	5
Other	176	214	169	171	175
Total interest on debt	**16,920**	**16,940**	**17,506**	**17,918**	**17,961**
Interest on lease liabilities	**364**	**357**	**354**	**365**	**367**
Other financing costs(b)	**1,179**	**2,524**	**2,091**	**2,179**	**2,644**
Total interest expense	**18,463**	**19,821**	**19,951**	**20,462**	**20,972**

(a) Public debt interest estimates are calculated using the contract interest rates incurred on existing Australian Government Securities (AGS), previously referred to as Commonwealth Government Securities, when issued and on technical assumptions, based on prevailing market interest rates across the yield curve, for yields on future AGS issuance.
(b) From 2020-21, the value of Debt Not Expected to be Repaid on initial recognition of income contingent concessional loans is reported as Other Financing costs rather than as a valuation adjustment. This change is consistent with Australian Accounting Standards and brings the accounting treatment of income contingent concessional loans into line with other concessional loans.

Note 11: Current and capital grants expense

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Current grants expense					
State and Territory governments	118,096	118,181	125,118	132,016	138,853
Private sector	10,500	13,060	11,175	10,972	10,826
Overseas	3,916	4,264	3,771	3,876	4,102
Non-profit organisations	5,652	5,561	4,860	4,512	4,563
Multi-jurisdictional sector	10,391	12,402	11,611	11,257	11,237
Other	1,243	3,790	4,467	3,432	2,706
Total current grants expense	**149,799**	**157,257**	**161,001**	**166,067**	**172,288**
Capital grants expense					
Mutually agreed write-downs	3,114	1,496	1,516	1,631	1,664
Other capital grants					
State and Territory governments	7,064	11,598	14,449	14,632	14,638
Local governments	634	1,596	1,068	473	452
Non-profit organisations	627	839	580	465	260
Private sector	52	55	49	25	5
Overseas	22	0	0	0	0
Other	169	347	238	145	53
Total capital grants expense	**11,681**	**15,931**	**17,900**	**17,370**	**17,072**
Total grants expense	**161,479**	**173,188**	**178,901**	**183,437**	**189,359**

Note 12: Personal benefits expense

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Social welfare — assistance to the aged	50,635	54,206	51,512	53,163	55,047
Assistance to veterans and dependants	4,992	4,952	4,464	4,192	4,022
Assistance to people with disabilities	27,156	28,608	27,105	27,468	28,565
Assistance to families with children	29,455	30,991	27,648	27,704	28,066
Assistance to the unemployed	20,092	34,062	17,294	14,090	13,020
Student assistance	3,583	3,880	2,494	2,371	2,369
Other welfare programs	1,022	1,105	1,032	1,058	1,074
Financial and fiscal affairs	746	428	396	426	461
Vocational and industry training	31	62	72	65	72
Other	7,003	7,552	10,171	12,946	18,137
Total personal benefits expense	**144,715**	**165,845**	**142,189**	**143,481**	**150,832**

Note 13: Advances paid and other receivables

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Advances paid					
Loans to State and Territory governments	2,474	2,273	2,104	1,957	1,825
Student loans	52,377	54,232	55,488	56,232	56,239
Other	27,500	30,857	31,885	32,752	13,952
less Impairment allowance	307	307	304	296	290
Total advances paid	**82,045**	**87,054**	**89,173**	**90,646**	**71,727**
Other receivables					
Goods and services receivable	2,117	1,482	1,460	1,517	1,509
Recoveries of benefit payments	5,845	4,446	4,370	4,171	3,996
Taxes receivable	36,029	38,333	41,150	43,645	45,979
Prepayments	4,658	4,464	4,582	4,694	4,845
Other	29,957	21,334	22,860	20,724	22,699
less Impairment allowance	3,207	3,032	2,938	2,896	2,880
Total other receivables	**75,398**	**67,027**	**71,484**	**71,856**	**76,148**

Note 14: Investments, loans and placements

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Investments — deposits	75,757	41,423	65,004	29,691	24,928
IMF quota	13,214	13,193	13,193	13,285	13,320
Other	150,779	163,893	175,601	188,216	197,676
Total investments, loans and placements	**239,749**	**218,509**	**253,798**	**231,192**	**235,924**

Note 15: Non-financial assets

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Land and buildings					
Land	11,715	11,742	11,757	11,824	11,793
Buildings	43,419	43,521	44,392	46,484	48,386
Total land and buildings	**55,134**	**55,264**	**56,149**	**58,308**	**60,179**
Plant, equipment and infrastructure					
Specialist military equipment	71,615	76,273	81,990	89,247	97,525
Other plant, equipment and infrastructure	17,357	17,774	19,642	19,745	19,236
Total plant, equipment and infrastructure	**88,973**	**94,047**	**101,632**	**108,991**	**116,761**
Inventories					
Inventories held for sale	1,090	1,091	996	986	985
Inventories not held for sale	8,845	9,956	9,962	9,972	9,961
Total inventories	**9,935**	**11,047**	**10,959**	**10,958**	**10,946**
Intangibles					
Computer software	4,656	5,559	6,103	6,434	6,661
Other	4,445	4,576	4,818	5,062	5,314
Total intangibles	**9,101**	**10,135**	**10,921**	**11,496**	**11,975**
Total investment properties	**208**	**218**	**218**	**218**	**218**
Total biological assets	**31**	**28**	**16**	**16**	**16**
Total heritage and cultural assets	**11,976**	**11,994**	**11,986**	**11,985**	**11,979**
Total assets held for sale	**270**	**241**	**241**	**241**	**241**
Total other non-financial assets	**37**	**34**	**34**	**34**	**34**
Total non-financial assets(a)	**175,666**	**183,007**	**192,155**	**202,247**	**212,348**
Memorandum:					
Total relating to right of use assets					
Land	*159*	*156*	*152*	*149*	*144*
Buildings	*17,392*	*16,374*	*15,732*	*15,708*	*15,177*
Specialist military equipment	*291*	*260*	*228*	*197*	*165*
Other plant, equipment and infrastructure	*1,804*	*1,552*	*2,699*	*2,557*	*2,364*
Total right of use assets	***19,647***	***18,341***	***18,811***	***18,610***	***17,850***

(a) Includes right of use (leased) assets, resulting from implementation of AASB 16.

Note 16: Loans

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Promissory notes	10,051	10,257	10,257	10,258	10,258
Special drawing rights	6,199	6,189	6,189	6,232	6,249
Other	883	482	495	461	427
Total loans	**17,132**	**16,928**	**16,941**	**16,951**	**16,934**

Note 17: Employee and superannuation liabilities

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Total superannuation liability(a)	**430,105**	**236,690**	**243,412**	**250,148**	**256,790**
Other employee liabilities					
Leave and other entitlements	9,513	9,570	9,649	9,776	9,907
Accrued salaries and wages	444	480	536	575	624
Workers compensation claims	2,029	1,918	1,828	1,749	1,678
Military compensation	19,815	20,428	21,078	21,753	22,438
Other	461	700	711	721	732
Total other employee liabilities	**32,262**	**33,097**	**33,803**	**34,573**	**35,379**
Total employee and superannuation liabilities	**462,367**	**269,787**	**277,214**	**284,721**	**292,170**

(a) For budget reporting purposes, a discount rate of 5 per cent determined by actuaries in preparing the 2017 Long Term Cost Reports is used to value the superannuation liability. This reflects the average annual rate estimated to apply over the term of the liability and it reduces the volatility in reported liabilities that would occur from year to year if the spot rates on long-term government bonds were used. Consistent with AAS, the superannuation liability for the 2019-20 FBO was calculated using the spot rates on long-term government bonds as at 30 June 2020 that best matched each individual scheme's liability duration. These rates were between 1.0 and 1.7 per cent per annum.

Note 18: Provisions and payables

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Suppliers payables					
Trade creditors	6,154	6,498	6,793	7,100	7,317
Lease rental payable	10	15	19	24	28
Personal benefits payables — indirect	644	1,234	1,647	1,706	1,622
Other creditors	588	286	278	283	284
Total suppliers payables	**7,396**	**8,033**	**8,737**	**9,112**	**9,251**
Total personal benefits payables — direct	**4,670**	**3,146**	**3,023**	**2,956**	**3,565**
Total subsidies payable	**1,041**	**998**	**1,395**	**1,419**	**1,447**
Grants payables					
State and Territory governments	134	42	27	23	20
Non-profit organisations	162	164	165	163	161
Private sector	446	450	451	451	451
Overseas	1,867	2,011	1,682	1,420	1,652
Local governments	8	8	8	8	8
Other	231	234	244	247	242
Total grants payables	**2,847**	**2,908**	**2,576**	**2,310**	**2,533**
Total other payables	**4,580**	**2,351**	**2,356**	**2,407**	**2,411**
Provisions					
Provisions for tax refunds	3,105	3,095	3,085	3,075	3,065
Grants provisions	9,050	7,877	7,499	7,130	6,756
Personal benefits provisions — direct	7,924	8,074	8,167	8,353	8,544
Personal benefits provisions — indirect	2,915	3,272	3,545	3,721	3,786
Provisions for subsidies	23,689	4,851	4,305	4,329	4,658
Other	22,641	24,407	24,724	25,859	27,128
Total provisions	**69,323**	**51,575**	**51,325**	**52,466**	**53,937**

Note 19: Reconciliation of cash

	Actual	Estimates			
	2019-20	2020-21	2021-22	2022-23	2023-24
	$m	$m	$m	$m	$m
Net Operating balance (revenues *less* expenses)	**-92,271**	**-197,888**	**-103,420**	**-83,507**	**-58,519**
less **Revenues not providing cash**					
Other	1,598	1,452	1,656	1,526	1,194
Total revenues not providing cash	**1,598**	**1,452**	**1,656**	**1,526**	**1,194**
plus **Expenses not requiring cash**					
Increase/(decrease) in employee entitlements	8,367	9,746	7,639	7,745	7,732
Depreciation/amortisation expense	11,765	12,037	12,705	12,543	13,331
Mutually agreed write-downs	3,114	1,496	1,516	1,631	1,664
Other	1,837	2,388	2,106	2,939	2,668
Total expenses not requiring cash	**25,083**	**25,667**	**23,966**	**24,858**	**25,395**
plus **Cash provided/(used) by working capital items**					
Decrease/(increase) in inventories	-1,293	-1,422	-257	-384	-430
Decrease/(increase) in receivables	-24,432	871	-9,504	-5,654	-9,520
Decrease/(increase) in other financial assets	1,360	-1,455	-579	-663	-733
Decrease/(increase) in other non-financial assets	-1,215	56	-293	-312	-332
Increase/(decrease) in benefits, subsidies and grants payable	23,488	-20,410	-143	-176	679
Increase/(decrease) in suppliers' liabilities	-339	58	368	436	224
Increase/(decrease) in other provisions and payables	4,656	1,274	354	1,210	1,284
Net cash provided/(used) by working capital	**2,225**	**-21,028**	**-10,054**	**-5,543**	**-8,828**
equals (Net cash from/(to) operating activities)	-66,566	-194,701	-91,165	-65,719	-43,146
plus (Net cash from/(to) investing activities)	-78,579	-5,178	-58,041	-2,251	-11,348
Net cash from operating activities and investment	**-145,146**	**-199,879**	**-149,206**	**-67,970**	**-54,494**
plus (Net cash from/(to) financing activities)	145,992	196,206	149,436	68,667	53,822
***equals* Net increase/(decrease) in cash**	**846**	**-3,673**	**230**	**698**	**-671**
Cash at the beginning of the year	**8,607**	**9,453**	**5,780**	**6,009**	**6,707**
Net increase/(decrease) in cash	846	-3,673	230	698	-671
Cash at the end of the year	**9,453**	**5,780**	**6,009**	**6,707**	**6,035**

Appendix A: Financial reporting standards and budget concepts

The Budget primarily focuses on the financial performance and position of the general government sector (GGS). The GGS provides public services that are mainly non-market in nature and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies. AASB 1049 recognises the GGS as a reporting entity.

AASB 1049 Conceptual framework

AASB 1049 seeks to 'harmonise' the ABS GFS and AAS.

The reporting framework for AASB 1049 requires the preparation of accrual-based general purpose financial reports, showing government assets, liabilities, revenue, expenses and cash flows. GGS reporting under AASB 1049 aims to provide users with information about the stewardship of each government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of each government's GGS; and information that facilitates assessments of the macroeconomic impact. AASB 1049 also provides a basis for whole-of-government reporting, including for the PNFC and PFC sectors.

AASB 1049 has adopted the AAS conceptual framework and principles for the recognition of assets, liabilities, revenues and expenses and their presentation, measurement and disclosure. In addition, AASB 1049 has broadly adopted the ABS GFS conceptual framework for presenting government financial statements. In particular, AASB 1049 requires the GGS to prepare a separate set of financial statements, overriding AASB 10 *Consolidated Financial Statements.* AASB 1049 also follows the ABS GFS by requiring changes in net worth to be split into either transactions or 'other economic flows' and for this to be presented in a single operating statement. AASB 1049 is therefore broadly consistent with international statistical standards and the International Monetary Fund's (IMF) *Government Finance Statistics Manual 2014*.[1]

1 Additional information on the Australian accrual GFS framework is available in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2015* (cat. no. 5514.0).

All financial data presented in the financial statements are recorded as either stocks (assets and liabilities) or flows (classified as either transactions or 'other economic flows'). Transactions result from a mutually agreed interaction between economic entities. Despite their compulsory nature, taxes are transactions deemed to occur by mutual agreement between the government and the taxpayer. Transactions that increase or decrease net worth (assets less liabilities) are reported as revenues and expenses respectively in the operating statement.[2]

A change to the value or volume of an asset or liability that does not result from a transaction is an 'other economic flow'. This can include changes in values from market prices, most actuarial valuations and exchange rates, and changes in volumes from discoveries, depletion and destruction. All 'other economic flows' are reported in the operating statement.

Consistent with the ABS GFS framework, and in general AAS, the financial statements record flows in the period in which they occur. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected to be known in the past, is material in at least one of the affected periods and can be reliably assigned to the relevant period(s).

Operating statement

The operating statement presents details of transactions in revenues, expenses, the net acquisition of non-financial assets (net capital investment) and other economic flows for an accounting period.

Revenues arise from transactions that increase net worth and expenses arise from transactions that decrease net worth. Revenues less expenses gives the net operating balance. The net operating balance is similar to the National Accounts concept of government saving plus capital transfers.

The net acquisition of non-financial assets (net capital investment) equals gross fixed capital formation, less depreciation, plus changes (investment) in inventories, plus other transactions in non-financial assets.

'Other economic flows' are presented in the operating statement and outline changes in net worth that are driven by economic flows other than revenues and expenses. Revenues, expenses and 'other economic flows' sum to the total change in net worth during a period. The majority of 'other economic flows' for the Australian Government GGS arise from price movements in its assets and liabilities.

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2 Not all transactions impact net worth. For example, transactions in financial assets and liabilities do not impact net worth as they represent the swapping of assets and liabilities on the balance sheet.

Net operating balance

The net operating balance is the excess of revenue from transactions over expenses from transactions. The net operating balance excludes expenditure on the acquisition of capital assets, but includes non-cash costs such as accruing superannuation entitlements and the consumption of capital (depreciation). By including all accruing costs, including depreciation, the net operating balance encompasses the full current cost of providing government services. This makes it a measure of the sustainability of the government's fiscal position over time and provides an indication of the sustainability of the existing level of government services.

The net operating balance is a flow measure on the operating statement.

Fiscal balance

The fiscal balance (or net lending/borrowing) is the net operating balance less net capital investment. Thus, the fiscal balance includes the impact of net expenditure (effectively purchases less sales) on non-financial assets rather than consumption (depreciation) of non-financial assets.[3]

The fiscal balance measures the Australian Government's investment-saving balance. It measures in accrual terms the gap between government savings plus net capital transfers, and investment in non-financial assets. As such, it approximates the contribution of the Australian Government GGS to the balance on the current account in the balance of payments.

Balance sheet

The balance sheet shows stocks of assets, liabilities and net worth. In accordance with the UPF, net debt, net financial worth and net financial liabilities are also reported in the balance sheet.

Net worth

The net worth of the GGS, PNFC and PFC sectors is defined as assets less liabilities. This differs from the ABS GFS definition for the PNFC and PFC sectors where net worth is defined as assets less liabilities less shares and other contributed capital. Net worth is an economic measure of wealth, reflecting the Australian Government's contribution to the wealth of Australia.

Net financial worth

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities. This differs from the ABS GFS definition of net financial worth for the PNFC and PFC sectors, defined as

3 The net operating balance includes consumption of non-financial assets because depreciation is an expense. Depreciation is deducted in the calculation of net capital investment as the full investment in non-financial assets is included in the calculation of fiscal balance.

financial assets, less liabilities, less shares and other contributed capital. Net financial worth is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. Net financial worth includes all classes of financial assets and all liabilities, only some of which are included in net debt. As non-financial assets are excluded from net financial worth, this is a narrower measure than net worth. However, it avoids the concerns inherent with the net worth measure relating to the valuation of non-financial assets and their availability to offset liabilities.

Net financial liabilities

Net financial liabilities comprises total liabilities less financial assets but excludes equity investments in the other sectors of the jurisdiction. Net financial liabilities is a more accurate indicator than net debt of a jurisdiction's fiscal position as it includes substantial non debt liabilities such as accrued superannuation and long service leave entitlements. Excluding the net worth of other sectors of government results in a purer measure of financial worth than net financial worth, as, in general, the net worth of other sectors of government, in particular the PNFC sector, is backed up by physical assets.

Net debt

Net debt is the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits, advances paid, and investments, loans and placements). The financial assets include Future Fund investments in interest bearing securities and collective investment vehicles (CIVs). CIVs enable investors to pool their money and invest the pooled funds, rather than buying securities directly. Net debt does not include superannuation related liabilities. Net debt is a common measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

The 2015 ABS GFS Manual presents debt in a matrix format, with no single net debt aggregate identified. The Australian Government continues to report net debt in accordance with the UPF as described above.

Cash flow statement

The cash flow statement identifies how cash is generated and applied in a single accounting period. The cash flow statement reflects a cash basis of recording (rather than an accrual basis) where information is derived indirectly from underlying accrual transactions and movements in balances. This, in effect, means that transactions are captured when cash is received or when cash payments are made. Cash transactions are specifically identified because cash management is considered an integral function of accrual budgeting.

Underlying cash balance

The underlying cash balance plus net Future Fund earnings is the cash counterpart of the fiscal balance, reflecting the Australian Government's cash investment-saving balance.

For the GGS, the underlying cash balance is calculated as shown below:

Net cash flows from operating activities

plus

Net cash flows from investments in non-financial assets

equals

ABS GFS cash surplus/deficit

plus

Net cash flows from financing activities for leases

less

Net Future Fund cash earnings

equals

Underlying cash balance

Under the *Future Fund Act 2006*, earnings are required to be reinvested to meet the Government's future public sector superannuation liabilities. The Government excludes net Future Fund cash earnings from the calculation of the underlying cash balance between 2005-06 and 2019-20. From 2020-21 onwards, net Future Fund cash earnings are included in the calculation of the underlying cash balance because the Future Fund becomes available to meet the Government's superannuation liabilities from that year.

In contrast, net Future Fund earnings are included in the net operating balance and fiscal balance for all years because superannuation expenses relating to future cash payments are recorded in the net operating balance and fiscal balance.

Net Future Fund earnings are separately identified in the Australian Government GGS cash flow statement in Table 3 of this statement and related tables in Statement 3, and Statement 11.

Headline cash balance

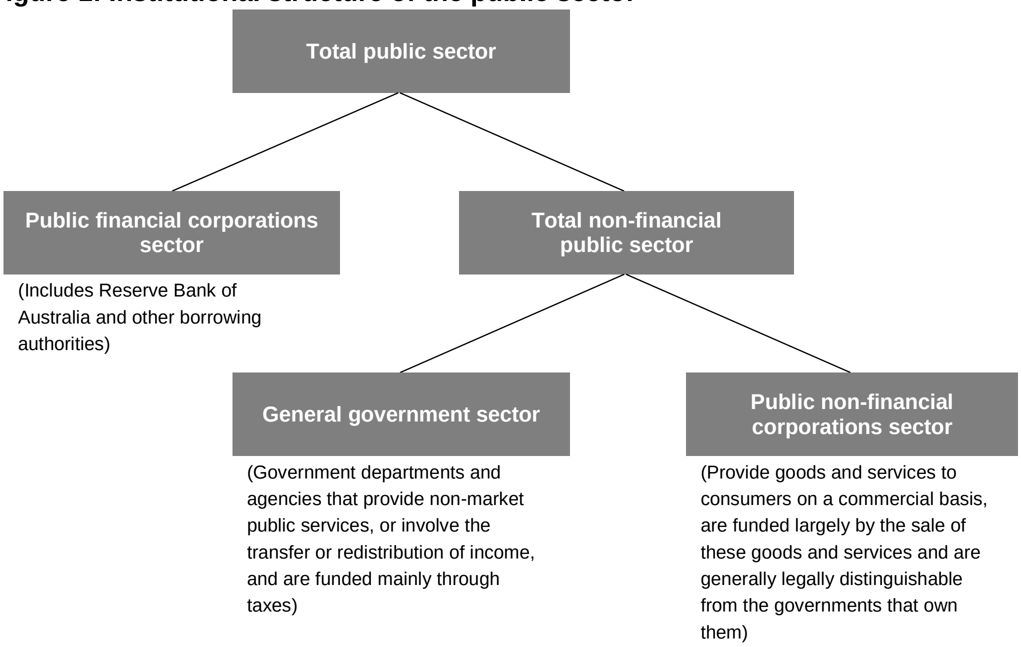
The headline cash balance is calculated by adding net cash flows from investments in financial assets for policy purposes and net Future Fund earnings to the underlying cash balance.

Net cash flows from investments in financial assets for policy purposes include equity transactions and advances paid.[4] Equity transactions include equity injections into controlled businesses and privatisations of government businesses. Advances paid include net loans to the states and net loans to students.

Sectoral classifications

To assist in analysing the public sector, data are presented by institutional sector as shown in Figure 1. The ABS GFS defines the GGS, PNFC and PFC sectors. AASB 1049 has also adopted this sectoral reporting.

Figure 1: Institutional structure of the public sector



All entities are classified as GGS entities except for the following list of portfolio entities that are classified as PFC or PNFC (Table A1).

A table which provides a full list of public sector principal entities under the current portfolio structure is available on the Department of Finance website at www.finance.gov.au/government/managing-commonwealth-resources/structure-australian-government-public-sector/pgpa-act-flipchart-list.

4 Net cash flows from investments in financial assets for policy purposes are often referred to as net advances.

Table A1: Entities outside of the general government sector — 2019-20

Public financial corporations

Attorney-General's Portfolio

- Coal Mining Industry (Long Service Leave Funding) Corporation

Foreign Affairs and Trade Portfolio

- Export Finance and Insurance Corporation (also referred to as Export Finance Australia)

Industry, Science, Energy and Resources Portfolio

- CSIRO FollowOn Services Pty Ltd
- CSIRO FollowOn Services 2 Pty Ltd
- CSIRO General Partner Pty Ltd
- CSIRO General Partner 2 Pty Ltd
- CSIROGP Fund 2 Pty Ltd

Treasury Portfolio

- Australian Reinsurance Pool Corporation
- National Housing Finance and Investment Corporation*
- Reserve Bank of Australia

Public non-financial corporations

Industry, Science, Energy and Resources Portfolio

- ANSTO Nuclear Medicine Pty Ltd
- Snowy Hydro Limited

Infrastructure, Transport, Regional Development and Communications Portfolio

- Airservices Australia
- Australian Postal Corporation (Australia Post)
- Australian Rail Track Corporation Limited
- Moorebank Intermodal Company Limited
- nbn Co Ltd
- WSA Co Ltd

Finance Portfolio

- ASC Pty Ltd
- Australian Naval Infrastructure Pty Ltd

Social Services Portfolio

- Australian Hearing Services (Hearing Australia)

Table A1: Entities outside of the general government sector — 2019-20 (continued)

Public non-financial corporations (continued)
Prime Minister and Cabinet Portfolio • Voyages Indigenous Tourism Australia Pty Ltd

* The National Housing Finance and Investment Corporation (NHFIC), a corporate Commonwealth entity, operates an affordable housing bond aggregator to encourage greater private and institutional investment and provide cheaper and longer term finance to registered providers of affordable housing. The NHFIC bond aggregator is a PFC. NHFIC also administers the National Housing Infrastructure Facility (the Facility). The Facility is included in the GGS.

Appendix B: Assets and Liabilities

The Australian Government's major assets and liabilities

Assets

The Government's total assets were $709.8 billion at 30 June 2020, and are estimated to decrease to $696.0 billion in 2020-21 and increase to $758.9 billion by the end of the forward estimates.

The Government's financial assets[1] were $534.1 billion at 30 June 2020, and are estimated to decrease to $512.9 billion in 2020-21 and increase to $546.5 billion by the end of the forward estimates.

The Government's non-financial assets were $175.7 billion at 30 June 2020, and are estimated to increase to $183.0 billion in 2020-21 and $212.3 billion by the end of the forward estimates.

Future Fund

The Future Fund was established in 2006 to accumulate financial assets and invest them on behalf of the Australian Government to address the Government's unfunded superannuation liability.

The Investment Mandate for the Future Fund sets a benchmark rate of return of at least CPI plus 4.0 to 5.0 per cent per annum over the long term. The Investment Mandate gives guidance to the Future Fund Board of Guardians (the Board) in relation to its investment strategy. The Board is independently responsible for the investment decisions of the Future Fund. The Investment Mandate also requires the Board to take an acceptable, but not excessive, level of risk for the Future Fund, measured in terms such as the probability of losses in a particular year.

Between establishment and 30 June 2020, the average return has been 7.5 per cent per annum against a target of 6.5 per cent. For the 12-month period ending 30 June 2020, the Future Fund's return was -0.9 per cent against the benchmark of 3.7 per cent. The Future Fund was valued at $161.1 billion at 30 June 2020.

The Board continues to maintain clear objectives and manage the portfolio in line with its mandate and strategy. Table 1 shows changes in the asset allocation of the Future Fund since 30 June 2020.

1 Financial assets include loans. Information on Government loans, including the *Higher Education Loan Program*, can be found in *Statement 9: Statement of Risks*.

Table 1: Asset allocation of the Future Fund

Asset class	30 June 2019 $m	30 June 2019 % of Fund	30 June 2020 $m	30 June 2020 % of Fund
Australian equities	11,457	7.0	11,012	6.8
Global equities				
Developed markets	*30,097*	*18.5*	*30,810*	*19.1*
Emerging markets	*16,317*	*10.0*	*13,074*	*8.1*
Private equity	25,705	15.8	24,424	15.2
Property	10,886	6.7	9,285	5.8
Infrastructure and Timberland	12,215	7.5	11,420	7.1
Debt securities	14,621	9.0	12,852	8.0
Alternative assets	21,960	13.5	20,832	12.9
Cash	19,363	11.9	27,404	17.0
Total Future Fund assets	162,621	100.0	161,112	100.0

Note: Figures may not sum due to rounding.

Medical Research Future Fund

The Medical Research Future Fund (MRFF) was established on 26 August 2015 to provide additional funding for medical research and medical innovation.

Table 2: Government contributions to the MRFF

Date	Source(s)	Amount $m
22 September 2015	Uncommitted balance of the Health and Hospitals Fund (HHF)	1,010
1 December 2015	Savings from the Health portfolio and residual balance of the HHF	2,139
26 August 2016	Savings from the Health portfolio and residual balance of the HHF	1,277
3 July 2017	Savings from the Health portfolio	2,242
10 July 2018	Savings from the Health portfolio	2,289
23 July 2019	Savings from the Health portfolio	7,831
21 July 2020	Savings from the Health portfolio	3,212
	Total	20,000

Note: Figures may not sum due to rounding.

On 21 July 2020, the Government made a final credit to the MRFF of $3.2 billion, bringing total credits to $20 billion. As announced in the 2014-15 Budget, the target was to grow the MRFF to $20 billion through annual credits which are preserved in perpetuity. There are no further credits scheduled for the MRFF.

The maximum allowable annual distribution from the MRFF is determined by the Future Fund Board of Guardians (the Board) taking into account the requirement to maintain the value of credits to the Fund over the long term.

The MRFF is managed by the Board. The Treasurer and Minister for Finance have set an Investment Mandate for the MRFF, which provides broad direction to the Board in relation to its investment strategy. The MRFF Investment Mandate sets a benchmark return of the Reserve Bank of Australia's Cash Rate target plus 1.5 to 2.0 per cent per annum, net of costs, over a rolling 10-year term.

Since inception to 30 June 2020, MRFF investments have returned 3.6 per cent per annum against a target return of 2.9 per cent per annum. The MRFF was valued at $17.2 billion at 30 June 2020.

DisabilityCare Australia Fund

The DisabilityCare Australia Fund (DCAF) was established on 1 July 2014 to assist the Commonwealth and the State and Territory governments with spending directly related to the National Disability Insurance Scheme (NDIS).

The DCAF is funded by revenue raised from the 0.5 per cent increase in the Medicare levy to 2 per cent that was implemented on 1 July 2014. As at 30 June 2020, the DCAF had received credits totalling $23.2 billion.

The investments of the DCAF are managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an Investment Mandate for the DCAF, which provides guidance to the Board in relation to its investment strategy for the DCAF. The DCAF Investment Mandate sets a benchmark return on the DCAF of the Australian three-month bank bill swap rate plus 0.3 per cent per annum calculated on a rolling 12-month basis (net of fees). In achieving its objectives, the Board must invest in such a way as to minimise the probability of capital losses over a 12-month horizon.

For the 12 month period ending 30 June 2020, the DCAF's return was 1.3 per cent against the benchmark of 1.1 per cent. The DCAF was valued at $16.5 billion at 30 June 2020.

Aboriginal and Torres Strait Islander Land and Sea Future Fund

The Government established the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILSFF) on 1 February 2019 to support payments to the Indigenous Land and Sea Corporation (ILSC).

The ATSILSFF was seeded with the capital of the former Aboriginal and Torres Strait Islander Land Account (Land Account) — approximately $2 billion. The Land Account was abolished on the establishment of the ATSILSFF.

The investments of the ATSILSFF are managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an Investment Mandate for the ATSILSFF, which provides broad direction to the Board in relation to its investment strategy. The ATSILSFF Investment Mandate sets a long-term benchmark return of CPI plus 2.0 to 3.0 per cent per annum, net of costs.

Measurement of the ATSILSFF portfolio against the Investment Mandate commenced on 1 October 2019. The ATSILSFF has returned -1.3 per cent since 1 October 2019.

Future Drought Fund

The Government established the Future Drought Fund (FDF) on 1 September 2019 to fund initiatives that enhance future drought resilience, preparedness and response across Australia.

The FDF was seeded with the uncommitted balance of the Building Australia Fund (BAF) — approximately $4 billion. The BAF was abolished on the establishment of the FDF. The Fund provides disbursements of $100 million per annum, with the first disbursement made in July 2020.

The investments of the FDF are managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an Investment Mandate for the FDF, which provides broad direction to the Board in relation to its investment strategy. The FDF Investment Mandate sets a long-term benchmark return of CPI plus 2.0 to 3.0 per cent per annum, net of costs.

Measurement of the FDF portfolio against the Investment Mandate commenced on 1 April 2020. The FDF has returned 3.4 per cent since 1 April 2020.

Emergency Response Fund

The Government established the Emergency Response Fund (ERF) on 12 December 2019 to fund initiatives which enhance future national disaster response and recovery efforts across Australia.

The ERF was seeded with the uncommitted balance of the Education Investment Fund (EIF) — approximately $4 billion. The EIF was abolished on establishment of the ERF. Disbursements from the ERF are limited to $200 million in each year that the Government decides to access the fund. This is comprised of up to $150 million for emergency response and recovery after a significant or catastrophic natural disaster, and up to $50 million to build resilience to prepare for or reduce the risk of future natural disasters.

The investments of the ERF are managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an Investment Mandate for the ERF, which provides broad direction to the Board in relation to its investment strategy. The ERF Investment Mandate sets a long-term benchmark return of CPI plus 2.0 to 3.0 per cent per annum, net of costs.

Measurement of the ERF portfolio against the Investment Mandate commenced on 1 April 2020. The ERF has returned 3.4 per cent since 1 April 2020.

National Broadband Network

NBN Co Limited’s (NBN Co) key objective is to ensure that all Australians have access to fast and reliable broadband, at affordable prices, and at least cost to taxpayers.

The Government has provided $29.5 billion in equity to NBN Co, with the final contributions made in 2017-18.

The Government also provided a loan of $19.5 billion to NBN Co on commercial terms, which was fully drawn down in July 2020.

Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) was established as a Commonwealth Authority in August 2012 through the *Clean Energy Finance Corporation Act 2012* (CEFC Act).

Under the CEFC Act, the CEFC has been provided $10 billion to invest in renewable energy, low emissions technology and energy efficiency projects. The CEFC will also administer the $1 billion Grid Reliability Fund when established, to support investment in new energy generation, storage and transmission infrastructure.

The CEFC continues to invest funds and manage its investments. Investment decisions are made by an independent board consistent with the CEFC Act and the CEFC's investment mandate.

Liabilities

The Government's total liabilities were $1.4 trillion at 30 June 2020, and are estimated to remain steady in 2020-21 and increase to $1.6 trillion by the end of the forward estimates.

The Government's major liabilities are Australian Government Securities on issue (see *Statement 7: Debt Statement* for further information) and public sector employee superannuation liabilities.

Public sector employee superannuation liabilities

Public sector employee superannuation entitlements relating to past and present civilian employees and military personnel are a financial liability on the Government's balance sheet. By the end of the forward estimates period, the Government's superannuation liabilities are projected to be $257 billion and approximately $317 billion at 30 June 2050.

These liabilities represent the present value of future unfunded superannuation benefits and are based on an actuarially determined discount rate of 5 per cent. The long-term nature of the unfunded superannuation liabilities requires the use of a discount rate that best matches the duration of the liabilities. The use of a long-term discount rate for budget purposes avoids the volatility that would occur by using current market yields on Government bonds, which continually change. The value recorded on the balance sheet is highly sensitive to the discount rate used.

The Australian Government has never fully funded its superannuation liabilities in relation to defined benefit schemes. However, the Future Fund was established in 2006 to help finance the Government's unfunded superannuation liabilities.

For civilian employees, the major defined benefit schemes are the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. These schemes were closed to new members in 1990 and 2005 respectively. The Public Sector Superannuation accumulation plan was introduced on 1 July 2005 and provides fully funded accumulation benefits for new civilian employees from that date.

For military personnel, the defined benefit schemes are the Defence Force Retirement and Death Benefits Scheme, the Defence Forces Retirement Benefits Scheme and the Military Superannuation and Benefits Scheme (MSBS). Following the closure of the MSBS on 30 June 2016, all defined benefit military schemes are now closed to new members. A new military superannuation accumulation scheme, ADF Super, commenced on 1 July 2016. ADF Super is accompanied by a statutory death and disability arrangement ADF cover.

While there have not been any new members to the public service and military defined benefit schemes since closure in 2005 and 2016 respectively, the value of the Government's unfunded superannuation liabilities (valued using the long-term discount rate) is projected to continue growing (in nominal terms) into the immediate future — although it is projected to decrease as a proportion of GDP. The increase in the liabilities partly results from the time value of money which recognises future benefits being closer to maturity each year. It also results from the accruing entitlements to current members of the civilian and military defined benefit schemes, and members covered by the statutory death and disability arrangement ADF cover.

As the superannuation liabilities are included in the Government's net worth and net financial worth aggregates, revaluations of the liabilities have an impact on these aggregates.

Statement 11: Historical Australian Government Data

This statement reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

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Statement 11: Historical Australian Government Data

Statement 11 reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

Data sources

Data are sourced from Australian Government *Final Budget Outcomes*, the Australian Bureau of Statistics (ABS), the Australian Office of Financial Management and Australian Government *Consolidated Financial Statements*.

- Accrual data from 1996-97 onwards and cash data, net debt data, net financial worth data and net worth data from 1999-2000 onwards are sourced from Australian Government *Final Budget Outcomes*. Back-casting adjustments for accounting classification changes and other revisions have been made from 1998-99 onwards where applicable.

- Cash data prior to 1999-2000 are sourced from ABS data, which have been calculated using methodology consistent with that used for later years in ABS cat. no. 5512.0 *Government Finance Statistics*.

- Net debt data prior to 1999-2000 are from ABS cat. no. 5512.0 *Government Finance Statistics 2003-04* in 1998-99, ABS cat. no. 5501.0 *Government Financial Estimates 1999-2000* and ABS cat. no. 5513.0 *Public Sector Financial Assets and Liabilities 1998* from 1987-88 to 1997-98, and Treasury estimates (see Treasury's *Economic Roundup, Spring 1996*, pages 97-103) prior to 1987-88.

Comparability of data across years

The data set contains a number of structural breaks owing to accounting classification differences and changes to the structure of the budget which cannot be eliminated through back-casting because of data limitations. These breaks can affect the comparability of data across years, especially when the analysis is taken over a large number of years. Specific factors causing structural breaks include:

- From 2019-20 onwards, as a result of the implementation of the accounting standard AASB 16 *Leases*, the distinction between operating and finance leases for lessees has been removed. This has a number of implications for the budget aggregates, in particular net debt and net financial worth. Also, to maintain consistency in the measurement of the underlying cash balance, the principal payments on lease liabilities which are recognised as cash flows from financing activities have been included in the calculation following the implementation of AASB 16.

- From 2005-06 onwards, underlying Government Finance Statistics (GFS) data are provided by agencies in accordance with Australian Accounting Standards (AAS), which includes International Financial Reporting Standards (IFRS) as adopted in Australia. Prior to 2005-06, underlying GFS data are based on data provided by agencies applying AAS prior to the adoption of IFRS.

- Most recent accounting classification changes that require revisions to the historical series have been back-cast (where applicable) to 1998-99, ensuring that data are consistent across the accrual period from 1998-99 onwards. However, because of data limitations, these changes have not been back-cast to earlier years.

- Prior to 1999-2000, Australian Government general government sector debt instruments are valued at historic cost, whereas from 1999-2000 onwards they are valued at market prices (consistent with accrual GFS standards). This affects net debt and net interest payments.

- Cash data up to and including 1997-98 are calculated under a cash accounting framework, while cash data from 1998-99 onwards are derived from an accrual accounting framework.[1] Although the major methodological differences associated with the move to the accrual framework have been eliminated through back-casting, comparisons across the break may still be affected by changes to some data sources and collection methodologies.

- Adjustments in the coverage of agencies are included in the accounts of the different sectors. These include the reclassification of Central Banking Authorities from the general government to the public financial corporations sector in 1998-99, and subsequent back-casting to account for this change.

- Changes have been made in arrangements for transfer payments, where tax concessions or rebates are replaced by payments through the social security system. This has the effect of increasing both cash receipts and payments, as compared with earlier periods, but not changing cash balances. Changes in the opposite direction reduce both cash payments and receipts.

- Classification differences in the data relating to the period prior to 1976-77 mean that earlier data may not be entirely consistent with data for 1976-77 onwards.

Revisions to previously published data

Under the accrual GFS framework and generally under AAS, flows are recorded in the period in which they occurred. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected

1 Prior to the 2008-09 Budget, cash data calculated under the cash accounting framework was used up to and including 1998-99. In the 2008-09 Budget, cash data prior to 1998-99 have been replaced by ABS data derived from the accrual framework.

to be known in the past, is material in at least one of the affected periods, and can be reliably assigned to the relevant period(s).

One item was reclassified in the 2020-21 Budget. From 2020-21, the value of Debt Not Expected to be Repaid on initial recognition of income contingent concessional loans is reported as *Other Financing costs* rather than as a valuation adjustment. This change is consistent with AAS and brings the accounting treatment of income contingent concessional loans into line with other concessional loans. This change results in an increase in expenses and worsens the net operating balance and fiscal balance. The expenses, net operating balance and fiscal balance series for the general government sector and non-financial public sector, as applicable, have been back-cast from 1996-97 to reflect this reclassification.

Table 1: Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance[(a)]

	Receipts(b)		Payments(c)			Net Future Fund earnings	Underlying cash balance(d)	
	$m	Per cent of GDP	$m	Per cent real growth(f)	Per cent of GDP	$m	$m	Per cent of GDP
1970-71	8,290	20.6	7,389	na	18.3	-	901	2.2
1971-72	9,135	20.5	8,249	4.1	18.5	-	886	2.0
1972-73	9,735	19.6	9,388	7.7	18.9	-	348	0.7
1973-74	12,228	20.3	11,078	4.2	18.4	-	1,150	1.9
1974-75	15,643	22.0	15,463	19.9	21.7	-	181	0.3
1975-76	18,727	22.5	20,225	15.7	24.3	-	-1,499	-1.8
1976-77	21,890	22.8	23,157	0.6	24.1	-	-1,266	-1.3
1977-78	24,019	22.9	26,057	2.7	24.8	-	-2,037	-1.9
1978-79	26,129	22.0	28,272	0.3	23.8	-	-2,142	-1.8
1979-80	30,321	22.6	31,642	1.5	23.5	-	-1,322	-1.0
1980-81	35,993	23.7	36,176	4.6	23.8	-	-184	-0.1
1981-82	41,499	23.6	41,151	2.9	23.4	-	348	0.2
1982-83	45,463	24.0	48,810	6.3	25.8	-	-3,348	-1.8
1983-84	49,981	23.4	56,990	9.4	26.7	-	-7,008	-3.3
1984-85	58,817	25.0	64,853	9.1	27.6	-	-6,037	-2.6
1985-86	66,206	25.4	71,328	1.5	27.4	-	-5,122	-2.0
1986-87	74,724	26.2	77,158	-1.1	27.0	-	-2,434	-0.9
1987-88	83,491	25.8	82,039	-0.9	25.3	-	1,452	0.4
1988-89	90,748	24.7	85,326	-3.1	23.2	-	5,421	1.5
1989-90	98,625	24.4	92,684	0.6	22.9	-	5,942	1.5
1990-91	100,227	24.2	100,665	3.1	24.3	-	-438	-0.1
1991-92	95,840	22.7	108,472	5.7	25.7	-	-12,631	-3.0
1992-93	97,633	22.0	115,751	5.6	26.1	-	-18,118	-4.1
1993-94	103,824	22.3	122,009	3.5	26.2	-	-18,185	-3.9
1994-95	113,458	22.9	127,619	1.4	25.8	-	-14,160	-2.9
1995-96	124,429	23.6	135,538	1.9	25.7	-	-11,109	-2.1
1996-97	133,592	24.1	139,689	1.7	25.2	-	-6,099	-1.1
1997-98	140,736	23.9	140,587	0.6	23.9	-	149	0.0
1998-99	152,063	24.5	148,175	4.1	23.9	-	3,889	0.6
1999-00	166,199	25.1	153,192	1.0	23.2	-	13,007	2.0
2000-01	182,996	26.0	177,123	9.1	25.1	-	5,872	0.8
2001-02	187,588	24.9	188,655	3.5	25.0	-	-1,067	-0.1
2002-03	204,613	25.5	197,243	1.4	24.6	-	7,370	0.9
2003-04	217,775	25.3	209,785	3.9	24.4	-	7,990	0.9
2004-05	235,984	25.6	222,407	3.5	24.1	-	13,577	1.5
2005-06	255,943	25.7	240,136	4.6	24.1	51	15,757	1.6
2006-07	272,637	25.1	253,321	2.5	23.3	2,127	17,190	1.6
2007-08	294,917	25.0	271,843	3.8	23.1	3,319	19,754	1.7
2008-09	292,600	23.2	316,046	12.7	25.1	3,566	-27,013	-2.1
2009-10	284,662	21.9	336,900	4.2	25.9	2,256	-54,494	-4.2

Table 1: Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance[(a)] (continued)

	Receipts(b)		Payments(c)			Net Future Fund earnings	Underlying cash balance(d)	
	$m	Per cent of GDP	$m	Per cent real growth(f)	Per cent of GDP	$m	$m	Per cent of GDP
2010-11	302,024	21.3	346,102	-0.4	24.4	3,385	-47,463	-3.4
2011-12	329,874	22.0	371,032	4.8	24.7	2,203	-43,360	-2.9
2012-13	351,052	22.9	367,204	-3.2	23.9	2,682	-18,834	-1.2
2013-14	360,322	22.5	406,430	7.8	25.4	2,348	-48,456	-3.0
2014-15	378,301	23.3	412,079	-0.3	25.4	4,089	-37,867	-2.3
2015-16	386,924	23.3	423,328	1.3	25.5	3,202	-39,606	-2.4
2016-17	409,868	23.2	439,375	2.0	24.9	3,644	-33,151	-1.9
2017-18	446,905	24.2	452,742	1.1	24.5	4,305	-10,141	-0.5
2018-19	485,286	24.9	478,098	3.9	24.5	7,878	-690	0.0
2019-20	469,398	23.7	549,634	13.4	27.7	5,036	-85,272	-4.3
2020-21 (e)	**463,764**	**23.8**	**677,418**	**22.6**	**34.8**	**3,652**	**-213,654**	**-11.0**
2021-22 (e)	451,918	22.5	563,920	-17.5	28.0	3,802	-112,003	-5.6
2022-23 (e)	482,647	23.0	570,530	-0.6	27.2	4,022	-87,883	-4.2
2023-24 (e)	526,363	23.9	593,289	2.1	26.9	4,276	-66,926	-3.0

(a) Data have been revised in the 2020-21 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to cash receipts from operating activities and sales of non-financial assets.
(c) Payments are equal to cash payments for operating activities, purchases of non-financial assets and net cash flows from financing activities for leases.
(d) Between 2005-06 and 2019-20, the underlying cash balance is equal to receipts less payments, less net Future Fund earnings. Before 2005-06, the underlying cash balance is equal to receipts less payments.
(e) Estimates.
(f) Real spending growth is calculated using the Consumer Price Index as the deflator.

Table 2: Australian Government general government sector net cash flows from investments in financial assets for policy purposes and headline cash balance[(a)]

	Receipts	Payments	Net cash flows from investments in financial assets for policy purposes(b)		Headline cash balance(c)	
	$m	$m	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	8,290	7,389	-851	-2.1	50	0.1
1971-72	9,135	8,249	-987	-2.2	-101	-0.2
1972-73	9,735	9,388	-977	-2.0	-629	-1.3
1973-74	12,228	11,078	-1,275	-2.1	-125	-0.2
1974-75	15,643	15,463	-2,648	-3.7	-2,467	-3.5
1975-76	18,727	20,225	-2,040	-2.5	-3,539	-4.3
1976-77	21,890	23,157	-1,530	-1.6	-2,796	-2.9
1977-78	24,019	26,057	-1,324	-1.3	-3,361	-3.2
1978-79	26,129	28,272	-1,074	-0.9	-3,216	-2.7
1979-80	30,321	31,642	-702	-0.5	-2,024	-1.5
1980-81	35,993	36,176	-962	-0.6	-1,146	-0.8
1981-82	41,499	41,151	-1,008	-0.6	-660	-0.4
1982-83	45,463	48,810	-1,363	-0.7	-4,711	-2.5
1983-84	49,981	56,990	-1,136	-0.5	-8,144	-3.8
1984-85	58,817	64,853	-922	-0.4	-6,959	-3.0
1985-86	66,206	71,328	-810	-0.3	-5,932	-2.3
1986-87	74,724	77,158	-545	-0.2	-2,979	-1.0
1987-88	83,491	82,039	657	0.2	2,109	0.7
1988-89	90,748	85,326	168	0.0	5,589	1.5
1989-90	98,625	92,684	1,217	0.3	7,159	1.8
1990-91	100,227	100,665	1,563	0.4	1,125	0.3
1991-92	95,840	108,472	2,156	0.5	-10,475	-2.5
1992-93	97,633	115,751	2,471	0.6	-15,647	-3.5
1993-94	103,824	122,009	3,447	0.7	-14,738	-3.2
1994-95	113,458	127,619	1,546	0.3	-12,614	-2.6
1995-96	124,429	135,538	5,188	1.0	-5,921	-1.1
1996-97	133,592	139,689	7,241	1.3	1,142	0.2
1997-98	140,736	140,587	15,154	2.6	15,303	2.6
1998-99	152,063	148,175	6,948	1.1	10,837	1.7
1999-00	166,199	153,192	9,500	1.4	22,507	3.4
2000-01	182,996	177,123	5,673	0.8	11,545	1.6
2001-02	187,588	188,655	3,422	0.5	2,355	0.3
2002-03	204,613	197,243	-229	0.0	7,141	0.9
2003-04	217,775	209,785	-452	-0.1	7,538	0.9
2004-05	235,984	222,407	-1,139	-0.1	12,438	1.3
2005-06	255,943	240,136	-1,647	-0.2	14,160	1.4
2006-07	272,637	253,321	7,403	0.7	26,720	2.5
2007-08	294,917	271,843	5,108	0.4	28,181	2.4
2008-09	292,600	316,046	-7,889	-0.6	-31,336	-2.5
2009-10	284,662	336,900	-4,278	-0.3	-56,516	-4.3

Table 2: Australian Government general government sector net cash flows from investments in financial assets for policy purposes and headline cash balance[(a)] (continued)

	Receipts	Payments	Net cash flows from investments in financial assets for policy purposes(b)		Headline cash balance(c)	
	$m	$m	$m	Per cent of GDP	$m	Per cent of GDP
2010-11	302,024	346,102	-7,028	-0.5	-51,106	-3.6
2011-12	329,874	371,032	-5,866	-0.4	-47,023	-3.1
2012-13	351,052	367,204	-4,802	-0.3	-20,954	-1.4
2013-14	360,322	406,430	-6,371	-0.4	-52,479	-3.3
2014-15	378,301	412,079	-5,158	-0.3	-38,936	-2.4
2015-16	386,924	423,328	-12,684	-0.8	-49,088	-3.0
2016-17	409,868	439,375	-13,501	-0.8	-43,008	-2.4
2017-18	446,905	452,742	-20,041	-1.1	-25,878	-1.4
2018-19	485,286	478,098	-14,387	-0.7	-7,199	-0.4
2019-20	469,398	549,634	-13,632	-0.7	-93,868	-4.7
2020-21 (e)	**463,764**	**677,418**	**-16,375**	**-0.8**	**-230,029**	**-11.8**
2021-22 (e)	451,918	563,920	-11,765	-0.6	-123,767	-6.2
2022-23 (e)	482,647	570,530	-12,871	-0.6	-100,754	-4.8
2023-24 (e)	526,363	593,289	10,739	0.5	-56,187	-2.5

(a) Data have been revised in the 2020-21 Budget to improve accuracy and comparability through time.
(b) Prior to 1999-2000, net cash flows from investments in financial assets for policy purposes were referred to as ‘net advances’. A negative number reflects a cash outflow, while a positive number reflects a cash inflow.
(c) Headline cash balance is equal to receipts less payments, plus net cash flows from investments in financial assets for policy purposes. Receipts and payments are identical to Table 1.
(e) Estimates.

Table 3: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts[(a)]

	Taxation receipts		Non-taxation receipts		Total receipts(b)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	7,193	17.8	1,097	2.7	8,290	20.6
1971-72	7,895	17.7	1,240	2.8	9,135	20.5
1972-73	8,411	16.9	1,324	2.7	9,735	19.6
1973-74	10,832	18.0	1,396	2.3	12,228	20.3
1974-75	14,141	19.9	1,502	2.1	15,643	22.0
1975-76	16,920	20.3	1,807	2.2	18,727	22.5
1976-77	19,714	20.5	2,176	2.3	21,890	22.8
1977-78	21,428	20.4	2,591	2.5	24,019	22.9
1978-79	23,409	19.7	2,720	2.3	26,129	22.0
1979-80	27,473	20.4	2,848	2.1	30,321	22.6
1980-81	32,641	21.5	3,352	2.2	35,993	23.7
1981-82	37,880	21.6	3,619	2.1	41,499	23.6
1982-83	41,025	21.7	4,438	2.3	45,463	24.0
1983-84	44,849	21.0	5,132	2.4	49,981	23.4
1984-85	52,970	22.5	5,847	2.5	58,817	25.0
1985-86	58,841	22.6	7,365	2.8	66,206	25.4
1986-87	66,467	23.3	8,257	2.9	74,724	26.2
1987-88	75,076	23.2	8,415	2.6	83,491	25.8
1988-89	83,452	22.7	7,296	2.0	90,748	24.7
1989-90	90,773	22.5	7,852	1.9	98,625	24.4
1990-91	92,739	22.4	7,488	1.8	100,227	24.2
1991-92	87,364	20.7	8,476	2.0	95,840	22.7
1992-93	88,760	20.0	8,873	2.0	97,633	22.0
1993-94	93,362	20.0	10,462	2.2	103,824	22.3
1994-95	104,921	21.2	8,537	1.7	113,458	22.9
1995-96	115,700	21.9	8,729	1.7	124,429	23.6
1996-97	124,559	22.4	9,033	1.6	133,592	24.1
1997-98	130,984	22.3	9,752	1.7	140,736	23.9
1998-99	138,420	22.3	13,643	2.2	152,063	24.5
1999-00	151,313	22.9	14,887	2.3	166,199	25.1
2000-01	170,354	24.2	12,641	1.8	182,996	26.0
2001-02	175,371	23.3	12,218	1.6	187,588	24.9
2002-03	192,391	24.0	12,222	1.5	204,613	25.5
2003-04	206,734	24.0	11,041	1.3	217,775	25.3
2004-05	223,986	24.3	11,999	1.3	235,984	25.6
2005-06	241,987	24.3	13,956	1.4	255,943	25.7
2006-07	258,252	23.8	14,385	1.3	272,637	25.1
2007-08	279,317	23.7	15,600	1.3	294,917	25.0
2008-09	273,674	21.7	18,926	1.5	292,600	23.2
2009-10	262,167	20.1	22,495	1.7	284,662	21.9

Table 3: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts[(a)] (continued)

	Taxation receipts		Non-taxation receipts		Total receipts(b)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
2010-11	282,106	19.9	19,918	1.4	302,024	21.3
2011-12	311,269	20.8	18,606	1.2	329,874	22.0
2012-13	327,835	21.3	23,218	1.5	351,052	22.9
2013-14	340,283	21.3	20,038	1.3	360,322	22.5
2014-15	353,883	21.8	24,418	1.5	378,301	23.3
2015-16	362,387	21.8	24,537	1.5	386,924	23.3
2016-17	379,271	21.5	30,597	1.7	409,868	23.2
2017-18	418,053	22.6	28,853	1.6	446,905	24.2
2018-19	448,579	23.0	36,707	1.9	485,286	24.9
2019-20	431,775	21.8	37,623	1.9	469,398	23.7
2020-21 (e)	**424,643**	**21.8**	**39,121**	**2.0**	**463,764**	**23.8**
2021-22 (e)	413,799	20.6	38,119	1.9	451,918	22.5
2022-23 (e)	442,912	21.1	39,735	1.9	482,647	23.0
2023-24 (e)	487,645	22.1	38,718	1.8	526,363	23.9

(a) Data have been revised in the 2020-21 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to receipts from operating activities and sales of non-financial assets. Receipts are identical to Table 1.
(e) Estimates.

Table 4: Australian Government general government sector net debt and net interest payments[(a)]

	Net debt(b)		Net interest payments(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	344	0.9	-189	-0.5
1971-72	-496	-1.1	-245	-0.6
1972-73	-790	-1.6	-252	-0.5
1973-74	-1,851	-3.1	-286	-0.5
1974-75	-1,901	-2.7	-242	-0.3
1975-76	-341	-0.4	-330	-0.4
1976-77	898	0.9	-62	-0.1
1977-78	2,896	2.8	4	0.0
1978-79	4,983	4.2	254	0.2
1979-80	6,244	4.6	440	0.3
1980-81	6,356	4.2	620	0.4
1981-82	5,919	3.4	680	0.4
1982-83	9,151	4.8	896	0.5
1983-84	16,015	7.5	1,621	0.8
1984-85	21,896	9.3	2,813	1.2
1985-86	26,889	10.3	3,952	1.5
1986-87	29,136	10.2	4,762	1.7
1987-88	27,344	8.4	4,503	1.4
1988-89	21,981	6.0	4,475	1.2
1989-90	16,123	4.0	4,549	1.1
1990-91	16,915	4.1	3,636	0.9
1991-92	31,041	7.3	3,810	0.9
1992-93	55,218	12.5	3,986	0.9
1993-94	70,223	15.1	5,628	1.2
1994-95	83,492	16.9	7,292	1.5
1995-96	95,831	18.2	8,861	1.7
1996-97	96,281	17.3	9,489	1.7
1997-98	82,935	14.1	8,279	1.4
1998-99	72,065	11.6	8,649	1.4
1999-00	57,661	8.7	7,514	1.1
2000-01	46,802	6.6	6,195	0.9
2001-02	42,263	5.6	5,352	0.7
2002-03	33,403	4.2	3,758	0.5
2003-04	26,995	3.1	3,040	0.4
2004-05	15,604	1.7	2,502	0.3
2005-06	331	0.0	2,303	0.2
2006-07	-24,288	-2.2	228	0.0
2007-08	-39,958	-3.4	-1,015	-0.1
2008-09	-11,285	-0.9	-1,196	-0.1
2009-10	47,874	3.7	2,386	0.2

Table 4: Australian Government general government sector net debt and net interest payments[(a)] (continued)

	Net debt(b)		Net interest payments(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
2010-11	90,660	6.4	4,608	0.3
2011-12	153,443	10.2	6,609	0.4
2012-13	159,594	10.4	8,285	0.5
2013-14	209,559	13.1	10,843	0.7
2014-15	245,817	15.1	10,868	0.7
2015-16	303,467	18.3	12,041	0.7
2016-17	322,320	18.3	12,365	0.7
2017-18	341,961	18.5	13,135	0.7
2018-19	373,566	19.2	15,149	0.8
2019-20	491,217	24.8	13,280	0.7
2020-21 (e)	**703,245**	**36.1**	**13,097**	**0.7**
2021-22 (e)	812,125	40.4	13,453	0.7
2022-23 (e)	899,791	42.8	13,113	0.6
2023-24 (e)	966,168	43.8	13,647	0.6

(a) Data have been revised in the 2020-21 Budget to improve accuracy and comparability through time.
(b) Net debt is the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).
(c) Net interest payments are equal to the difference between interest paid and interest receipts.
(e) Estimates.

Table 5: Australian Government general government sector face value of Australian Government Securities (AGS)[(a)] on issue and interest paid[(b)]

	Face value of AGS on issue(c)					
	Total AGS on issue(d)		Subject to Treasurer's Direction(f)		Interest paid(g)	
	End of year $m	Per cent of GDP	End of year $m	Per cent of GDP	$m	Per cent of GDP
1970-71	10,887	27.0	-	-	580	1.4
1971-72	11,490	25.8	-	-	614	1.4
1972-73	12,217	24.6	-	-	675	1.4
1973-74	12,809	21.3	-	-	712	1.2
1974-75	14,785	20.8	-	-	893	1.3
1975-76	17,940	21.6	-	-	1,001	1.2
1976-77	20,845	21.7	-	-	1,485	1.5
1977-78	23,957	22.8	-	-	1,740	1.7
1978-79	28,120	23.7	-	-	2,080	1.8
1979-80	29,321	21.8	-	-	2,356	1.8
1980-81	30,189	19.8	-	-	2,723	1.8
1981-82	31,060	17.7	-	-	3,058	1.7
1982-83	37,071	19.6	-	-	3,580	1.9
1983-84	45,437	21.3	-	-	4,558	2.1
1984-85	54,420	23.2	-	-	5,952	2.5
1985-86	63,089	24.2	-	-	7,394	2.8
1986-87	67,172	23.5	-	-	8,339	2.9
1987-88	62,794	19.4	-	-	8,139	2.5
1988-89	56,854	15.5	-	-	8,222	2.2
1989-90	48,399	12.0	-	-	8,064	2.0
1990-91	48,723	11.8	-	-	6,994	1.7
1991-92	58,826	13.9	-	-	6,819	1.6
1992-93	76,509	17.3	-	-	6,487	1.5
1993-94	90,889	19.5	-	-	7,709	1.7
1994-95	105,466	21.3	-	-	9,144	1.8
1995-96	110,166	20.9	-	-	10,325	2.0
1996-97	111,067	20.0	-	-	10,653	1.9
1997-98	93,664	15.9	-	-	9,453	1.6
1998-99	85,331	13.8	-	-	9,299	1.5
1999-00	75,536	11.4	-	-	8,509	1.3
2000-01	66,403	9.4	-	-	7,335	1.0
2001-02	63,004	8.4	-	-	6,270	0.8
2002-03	57,435	7.2	-	-	4,740	0.6
2003-04	54,750	6.4	-	-	4,096	0.5
2004-05	55,151	6.0	-	-	3,902	0.4
2005-06	54,070	5.4	-	-	4,628	0.5
2006-07	53,264	4.9	-	-	3,959	0.4
2007-08	55,442	4.7	-	-	3,754	0.3
2008-09	101,147	8.0	95,103	7.5	3,970	0.3
2009-10	147,133	11.3	141,806	10.9	6,411	0.5

Table 5: Australian Government general government sector face value of Australian Government Securities (AGS)[(a)] on issue and interest paid[(b)] (continued)

	Face value of AGS on issue(c)					
	Total AGS on issue(d)		Subject to Treasurer's Direction(f)		Interest paid(g)	
	End of year $m	Per cent of GDP	End of year $m	Per cent of GDP	$m	Per cent of GDP
2010-11	191,292	13.5	186,704	13.2	9,551	0.7
2011-12	233,976	15.6	229,389	15.3	10,875	0.7
2012-13	257,378	16.8	252,791	16.5	11,846	0.8
2013-14	319,487	20.0	316,952	19.8	13,972	0.9
2014-15	368,738	22.7	366,202	22.5	13,924	0.9
2015-16	420,420	25.3	417,936	25.2	14,977	0.9
2016-17	500,979	28.4	498,510	28.3	15,290	0.9
2017-18	531,937	28.8	529,467	28.6	16,568	0.9
2018-19	541,992	27.8	541,986	27.8	18,951	1.0
2019-20	684,298	34.5	684,292	34.5	16,524	0.8
2020-21 (e)	**872,000**	**44.8**	**872,000**	**44.8**	**17,230**	**0.9**
2021-22 (e)	1,016,000	50.5	1,016,000	50.5	17,655	0.9
2022-23 (e)	1,083,000	51.6	1,083,000	51.6	17,333	0.8
2023-24 (e)	1,138,000	51.6	1,138,000	51.6	18,122	0.8

(a) Referred to as Commonwealth Government Securities prior to the 2019-20 Budget.
(b) Data have been revised in the 2020-21 Budget to improve accuracy and comparability through time.
(c) From 2020-21 onwards, data for AGS on issue are estimates and are rounded to the nearest $1 billion.
(d) Total AGS on issue includes AGS held on behalf of the states and the Northern Territory.
(e) Estimates.
(f) The face value of AGS subject to the Treasurer's Direction excludes the stock and securities outlined in subsection 51JA(2A) of the *Commonwealth Inscribed Stock Act 1911*. These are the same stock and securities that were excluded from the previous legislative debt limit. AGS on issue subject to the Treasurer's Direction are not available prior to 2008-09 because the limit was first introduced in July 2008.
(g) Interest paid consists of all cash interest payments of the general government sector, including those relating to AGS on issue. From 2019-20 onwards, interest paid includes impacts from the implementation of AASB 16 *Leases.*

Table 6: Australian Government general government sector revenue, expenses, net operating balance, net capital investment and fiscal balance[(a)]

	Revenue		Expenses		Net operating balance(b)		Net capital investment		Fiscal balance(c)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1996-97	141,688	25.5	145,940	26.3	-4,252	-0.8	90	0.0	-4,342	-0.8
1997-98	146,820	25.0	148,788	25.3	-1,968	-0.3	147	0.0	-2,115	-0.4
1998-99	152,106	24.5	146,925	23.7	5,181	0.8	1,433	0.2	3,748	0.6
1999-00	167,304	25.3	155,728	23.6	11,576	1.8	-69	0.0	11,645	1.8
2000-01	186,106	26.4	180,277	25.6	5,829	0.8	8	0.0	5,820	0.8
2001-02	190,432	25.2	193,214	25.6	-2,782	-0.4	382	0.1	-3,164	-0.4
2002-03	206,778	25.8	201,402	25.1	5,376	0.7	287	0.0	5,088	0.6
2003-04	222,042	25.8	215,634	25.0	6,409	0.7	660	0.1	5,749	0.7
2004-05	242,354	26.3	229,427	24.9	12,926	1.4	1,034	0.1	11,892	1.3
2005-06	260,569	26.2	241,977	24.3	18,592	1.9	2,498	0.3	16,094	1.6
2006-07	277,895	25.6	259,197	23.9	18,698	1.7	2,333	0.2	16,365	1.5
2007-08	303,402	25.8	280,335	23.8	23,068	2.0	2,593	0.2	20,475	1.7
2008-09	298,508	23.7	324,889	25.8	-26,382	-2.1	4,064	0.3	-30,445	-2.4
2009-10	292,387	22.5	340,354	26.2	-47,967	-3.7	6,433	0.5	-54,400	-4.2
2010-11	309,204	21.8	356,710	25.2	-47,506	-3.4	5,297	0.4	-52,802	-3.7
2011-12	337,324	22.5	377,948	25.2	-40,624	-2.7	4,850	0.3	-45,474	-3.0
2012-13	359,496	23.4	383,351	25.0	-23,855	-1.6	987	0.1	-24,842	-1.6
2013-14	374,151	23.4	415,691	26.0	-41,540	-2.6	3,850	0.2	-45,390	-2.8
2014-15	379,455	23.4	418,956	25.8	-39,501	-2.4	2,706	0.2	-42,206	-2.6
2015-16	395,055	23.8	430,739	25.9	-35,684	-2.1	3,829	0.2	-39,513	-2.4
2016-17	415,723	23.6	449,712	25.5	-33,989	-1.9	2,876	0.2	-36,865	-2.1
2017-18	456,280	24.7	461,490	24.9	-5,209	-0.3	1,284	0.1	-6,493	-0.4
2018-19	493,346	25.3	485,869	24.9	7,476	0.4	6,126	0.3	1,350	0.1
2019-20	486,278	24.5	579,805	29.2	-93,527	-4.7	4,005	0.2	-97,532	-4.9
2020-21 (e)	**472,442**	**24.3**	**670,330**	**34.4**	**-197,888**	**-10.2**	**7,818**	**0.4**	**-205,706**	**-10.6**
2021-22 (e)	464,072	23.1	567,491	28.2	-103,420	-5.1	9,906	0.5	-113,326	-5.6
2022-23 (e)	491,400	23.4	574,907	27.4	-83,507	-4.0	11,013	0.5	-94,520	-4.5
2023-24 (e)	538,100	24.4	596,619	27.1	-58,519	-2.7	10,819	0.5	-69,338	-3.1

(a) Data have been revised in the 2020-21 Budget to improve accuracy and comparability through time.
(b) Net operating balance is equal to revenue less expenses.
(c) Fiscal balance is equal to revenue less expenses less net capital investment.
(e) Estimates.

Table 7: Australian Government general government sector net worth and net financial worth[(a)]

	Net worth(b)		Net financial worth(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
1999-00	-10,424	-1.6	-70,414	-10.7
2000-01	-10,287	-1.5	-75,544	-10.7
2001-02	-15,330	-2.0	-81,707	-10.8
2002-03	-18,856	-2.4	-86,456	-10.8
2003-04	-4,740	-0.6	-75,976	-8.8
2004-05	11,066	1.2	-62,372	-6.8
2005-06	14,293	1.4	-63,442	-6.4
2006-07	42,677	3.9	-39,370	-3.6
2007-08	67,122	5.7	-18,428	-1.6
2008-09	15,452	1.2	-75,465	-6.0
2009-10	-50,383	-3.9	-148,930	-11.4
2010-11	-100,504	-7.1	-203,904	-14.4
2011-12	-252,046	-16.8	-360,672	-24.1
2012-13	-207,769	-13.5	-317,843	-20.7
2013-14	-261,596	-16.4	-375,882	-23.5
2014-15	-308,390	-19.0	-427,169	-26.3
2015-16	-423,674	-25.5	-548,028	-33.0
2016-17	-390,897	-22.2	-529,225	-30.0
2017-18	-418,135	-22.6	-562,183	-30.4
2018-19	-543,459	-27.9	-694,448	-35.6
2019-20	-664,892	-33.6	-840,557	-42.4
2020-21 (e)	**-657,429**	**-33.8**	**-840,436**	**-43.2**
2021-22 (e)	-754,611	-37.5	-946,766	-47.1
2022-23 (e)	-833,104	-39.7	-1,035,351	-49.3
2023-24 (e)	-886,288	-40.2	-1,098,636	-49.9

(a) Data have been revised in the 2020-21 Budget to improve accuracy and comparability through time.
(b) Net worth is equal to total assets less total liabilities.
(c) Net financial worth is equal to financial assets less total liabilities.
(e) Estimates.

Table 8: Australian Government general government sector accrual taxation revenue, non-taxation revenue and total revenue[(a)]

	Taxation revenue		Non-taxation revenue		Total revenue	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1999-00	153,409	23.2	13,895	2.1	167,304	25.3
2000-01	175,876	24.9	10,229	1.5	186,106	26.4
2001-02	178,410	23.7	12,022	1.6	190,432	25.2
2002-03	195,319	24.4	11,458	1.4	206,778	25.8
2003-04	210,541	24.5	11,501	1.3	222,042	25.8
2004-05	230,490	25.0	11,863	1.3	242,354	26.3
2005-06	245,846	24.7	14,723	1.5	260,569	26.2
2006-07	262,876	24.2	15,019	1.4	277,895	25.6
2007-08	286,869	24.4	16,534	1.4	303,402	25.8
2008-09	279,303	22.2	19,206	1.5	298,508	23.7
2009-10	268,841	20.7	23,546	1.8	292,387	22.5
2010-11	289,566	20.4	19,639	1.4	309,204	21.8
2011-12	317,413	21.2	19,911	1.3	337,324	22.5
2012-13	338,106	22.0	21,390	1.4	359,496	23.4
2013-14	353,239	22.1	20,912	1.3	374,151	23.4
2014-15	356,321	21.9	23,134	1.4	379,455	23.4
2015-16	369,410	22.2	25,645	1.5	395,055	23.8
2016-17	388,641	22.0	27,082	1.5	415,723	23.6
2017-18	427,183	23.1	29,097	1.6	456,280	24.7
2018-19	456,072	23.4	37,274	1.9	493,346	25.3
2019-20	447,526	22.6	38,752	2.0	486,278	24.5
2020-21 (e)	**434,913**	**22.3**	**37,529**	**1.9**	**472,442**	**24.3**
2021-22 (e)	424,797	21.1	39,274	2.0	464,072	23.1
2022-23 (e)	454,348	21.6	37,052	1.8	491,400	23.4
2023-24 (e)	499,247	22.7	38,853	1.8	538,100	24.4

(a) Data have been revised in the 2020-21 Budget to improve accuracy and comparability through time.
(e) Estimates.

Table 9: Australian Government cash receipts, payments and surplus by institutional sector ($m)[a]

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts(b)	Payments(c)	Underlying cash balance(d)	Receipts(b)	Payments(f)	Cash surplus	Receipts(b)	Payments(f)	Cash surplus
1988-89	90,748	85,326	5,421	4,177	6,035	257	93,923	90,312	5,678
1989-90	98,625	92,684	5,942	3,926	11,322	-5,261	101,495	102,883	681
1990-91	100,227	100,665	-438	4,804	9,351	-2,139	103,837	108,808	-2,577
1991-92	95,840	108,472	-12,631	3,899	7,713	101	97,937	114,369	-12,530
1992-93	97,633	115,751	-18,118	4,385	7,819	-196	100,512	122,042	-18,314
1993-94	103,824	122,009	-18,185	5,178	6,476	1,482	106,747	126,214	-16,703
1994-95	113,458	127,619	-14,160	5,262	7,318	1,956	116,751	132,965	-12,204
1995-96	124,429	135,538	-11,109	4,927	8,190	-527	126,593	140,963	-11,636
1996-97	133,592	139,689	-6,099	4,782	7,373	473	135,259	143,948	-5,626
1997-98	140,736	140,587	149	6,238	7,923	1,119	144,517	145,985	1,268
1998-99	152,063	148,175	3,889	na	na	-353	na	na	3,536
1999-00	166,199	153,192	13,007	na	na	-2,594	na	na	10,413
2000-01	182,996	177,123	5,872	na	na	391	na	na	6,323
2001-02	187,588	188,655	-1,067	na	na	1,210	na	na	65
2002-03	204,613	197,243	7,370	27,386	26,105	1,280	na	na	8,651
2003-04	217,775	209,785	7,990	27,718	26,142	1,575	238,236	228,664	9,569
2004-05	235,984	222,407	13,577	29,621	28,071	1,550	257,946	242,805	15,141
2005-06	255,943	240,136	15,757	30,875	31,874	-999	278,254	263,421	14,833
2006-07	272,637	253,321	17,190	16,882	18,641	-1,759	285,336	267,719	17,625
2007-08	294,917	271,843	19,754	7,758	8,231	-472	300,503	277,754	22,800
2008-09	292,600	316,046	-27,013	7,987	8,960	-973	297,421	321,275	-23,786
2009-10	284,662	336,900	-54,494	8,419	9,341	-922	290,681	343,816	-52,879

Table 9: Australian Government cash receipts, payments and surplus by institutional sector ($m)[(a)] (continued)

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts(b)	Payments(c)	Underlying cash balance(d)	Receipts(b)	Payments(f)	Cash surplus	Receipts(b)	Payments(f)	Cash surplus
2010-11	302,024	346,102	-47,463	8,558	9,733	-1,175	308,258	353,452	-44,911
2011-12	329,874	371,032	-43,360	8,845	10,847	-2,002	336,122	379,266	-42,763
2012-13	351,052	367,204	-18,834	9,766	13,061	-3,294	358,088	377,221	-19,133
2013-14	360,322	406,430	-48,456	11,042	14,246	-3,204	368,521	417,248	-48,726
2014-15	378,301	412,079	-37,867	11,256	15,136	-3,880	386,643	424,229	-37,586
2015-16	386,924	423,328	-39,606	11,606	17,753	-6,147	395,842	438,228	-42,386
2016-17	409,868	439,375	-33,151	12,406	19,543	-7,138	419,433	456,020	-36,587
2017-18	446,905	452,742	-10,141	14,195	22,348	-8,153	457,604	471,451	-13,846
2018-19	485,286	478,098	-690	17,909	26,608	-8,699	498,767	500,276	-1,510
2019-20	469,398	549,634	-85,272	18,824	28,244	-9,419	483,362	573,018	-89,656
2020-21 (e)	**463,764**	**677,418**	**-213,654**	**19,344**	**27,312**	**-7,969**	**478,096**	**699,718**	**-221,623**
2021-22 (e)	451,918	563,920	-112,003	na	na	na	na	na	na
2022-23 (e)	482,647	570,530	-87,883	na	na	na	na	na	na
2023-24 (e)	526,363	593,289	-66,926	na	na	na	na	na	na

(a) Data have been revised in the 2020-21 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to receipts from operating activities and sales of non-financial assets.
(c) Payments in the general government sector are equal to payments for operating activities, purchases of non-financial assets and net cash flows from financing activities for leases.
(d) Between 2005-06 and 2019-20, the underlying cash balance is equal to receipts less payments, less net Future Fund earnings. Before 2005-06, the underlying cash balance is equal to receipts less payments.
(e) Estimates.
(f) Payments in the public non-financial corporations and non-financial public sectors are equal to payments for operating activities, purchases of non-financial assets, distributions paid and net cash flows from financing activities for leases.
na Data not available.

Table 10: Australian Government accrual revenue, expenses and fiscal balance by institutional sector ($m)[(a)]

	General government			Public non-financial corporations			Non-financial public sector		
	Revenue	Expenses	Fiscal balance(b)	Revenue	Expenses	Fiscal balance(b)	Revenue	Expenses	Fiscal balance(b)
1996-97	141,688	145,940	-4,342	27,431	26,015	-331	na	na	-4,673
1997-98	146,820	148,788	-2,115	29,618	26,999	2,360	na	na	251
1998-99	152,106	146,925	3,748	27,687	26,088	-816	175,891	169,111	2,932
1999-00	167,304	155,728	11,645	25,485	23,542	1,062	188,841	175,322	11,550
2000-01	186,106	180,277	5,820	25,869	24,762	-826	207,367	200,433	4,994
2001-02	190,432	193,214	-3,164	26,638	25,341	793	212,462	213,947	-2,371
2002-03	206,778	201,402	5,088	24,339	22,916	1,975	225,989	219,232	7,023
2003-04	222,042	215,634	5,749	25,449	23,444	2,143	241,746	233,333	7,892
2004-05	242,354	229,427	11,892	26,965	25,191	1,473	263,434	248,733	13,365
2005-06	260,569	241,977	16,094	28,143	29,531	-2,442	281,927	264,722	13,652
2006-07	277,895	259,197	16,365	15,443	16,360	-1,763	289,551	271,771	14,601
2007-08	303,402	280,335	20,475	6,854	6,686	-584	308,888	285,652	19,891
2008-09	298,508	324,889	-30,445	6,998	7,576	-1,495	303,309	330,268	-31,941
2009-10	292,387	340,354	-54,400	7,288	7,297	-1,079	298,033	346,008	-55,480
2010-11	309,204	356,710	-52,802	7,563	7,787	-1,446	315,001	362,732	-54,248
2011-12	337,324	377,948	-45,474	8,046	8,238	-2,158	343,722	384,538	-47,632
2012-13	359,496	383,351	-24,842	8,863	9,415	-4,189	366,642	391,048	-29,031
2013-14	374,151	415,691	-45,390	9,537	11,127	-6,070	381,971	425,102	-51,460
2014-15	379,455	418,956	-42,206	9,987	11,850	-4,856	387,719	429,083	-47,062
2015-16	395,055	430,739	-39,513	10,044	12,809	-7,486	403,868	442,318	-46,999
2016-17	415,723	449,712	-36,865	10,894	15,035	-9,918	425,114	463,243	-46,784
2017-18	456,280	461,490	-6,493	12,318	16,934	-10,055	466,661	476,403	-16,463
2018-19	493,346	485,869	1,350	15,836	20,899	-11,121	507,017	504,486	-9,655
2019-20	486,278	579,805	-97,532	17,029	23,174	-10,096	500,961	600,339	-107,325
2020-21 (e)	**472,442**	**670,330**	**-205,706**	**16,987**	**21,807**	**-7,714**	**486,311**	**689,016**	**-213,416**
2021-22 (e)	464,072	567,491	-113,326	na	na	na	na	na	na
2022-23 (e)	491,400	574,907	-94,520	na	na	na	na	na	na
2023-24 (e)	538,100	596,619	-69,338	na	na	na	na	na	na

(a) Data have been revised in the 2020-21 Budget to improve accuracy and comparability through time.
(b) Fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.
(e) Estimates.
na Data not available.

Table 11: Australian Government general government sector receipts, payments, underlying cash balance, net debt and net interest payments presented on a real per capita basis[(a)(b)]

	Taxation receipts	Non-taxation receipts	Total receipts	Payments	Underlying cash balance	Net debt	Net interest payments
1970-71	5,494	838	6,331	5,643	688	263	-144
1971-72	5,524	868	6,391	5,771	620	-347	-171
1972-73	5,484	863	6,348	6,122	227	-515	-164
1973-74	6,138	791	6,930	6,278	652	-1,049	-162
1974-75	6,797	722	7,519	7,433	87	-914	-116
1975-76	7,125	761	7,886	8,516	-631	-144	-139
1976-77	7,212	796	8,008	8,471	-463	329	-23
1977-78	7,073	855	7,928	8,601	-672	956	1
1978-79	7,066	821	7,887	8,534	-647	1,504	77
1979-80	7,430	770	8,200	8,557	-358	1,689	119
1980-81	7,954	817	8,771	8,815	-45	1,549	151
1981-82	8,208	784	8,992	8,916	75	1,283	147
1982-83	7,861	850	8,712	9,353	-642	1,754	172
1983-84	7,956	910	8,866	10,110	-1,243	2,841	288
1984-85	8,889	981	9,870	10,883	-1,013	3,674	472
1985-86	8,978	1,124	10,102	10,883	-782	4,103	603
1986-87	9,131	1,134	10,265	10,600	-334	4,003	654
1987-88	9,453	1,060	10,512	10,329	183	3,443	567
1988-89	9,628	842	10,470	9,844	625	2,536	516
1989-90	9,555	827	10,382	9,756	625	1,697	479
1990-91	9,153	739	9,893	9,936	-43	1,670	359
1991-92	8,368	812	9,180	10,390	-1,210	2,973	365
1992-93	8,341	834	9,175	10,877	-1,703	5,189	375
1993-94	8,532	956	9,488	11,150	-1,662	6,417	514
1994-95	9,191	748	9,938	11,179	-1,240	7,314	639
1995-96	9,608	725	10,333	11,255	-922	7,958	736
1996-97	10,096	732	10,828	11,322	-494	7,804	769
1997-98	10,511	783	11,294	11,282	12	6,655	664
1998-99	10,852	1,070	11,922	11,617	305	5,650	678
1999-00	11,455	1,127	12,582	11,597	985	4,365	569
2000-01	12,010	891	12,901	12,487	414	3,299	437
2001-02	11,882	828	12,710	12,782	-72	2,863	363
2002-03	12,500	794	13,294	12,815	479	2,170	244
2003-04	12,983	693	13,677	13,175	502	1,695	191
2004-05	13,566	727	14,293	13,470	822	945	152
2005-06	14,012	808	14,820	13,904	912	19	133
2006-07	14,269	795	15,064	13,997	950	-1,342	13
2007-08	14,630	817	15,447	14,239	1,035	-2,093	-53
2008-09	13,618	942	14,559	15,726	-1,344	-562	-60
2009-10	12,552	1,077	13,629	16,131	-2,609	2,292	114

Table 11: Australian Government general government sector receipts, payments, underlying cash balance, net debt and net interest payments presented on a real per capita basis[(a)(b)] (continued)

	Taxation receipts	Non-taxation receipts	Total receipts	Payments	Underlying cash balance	Net debt	Net interest payments
2010-11	12,919	912	13,831	15,849	-2,174	4,152	211
2011-12	13,692	818	14,511	16,321	-1,907	6,750	291
2012-13	13,859	982	14,841	15,524	-796	6,747	350
2013-14	13,798	813	14,611	16,480	-1,965	8,497	440
2014-15	13,906	960	14,866	16,193	-1,488	9,660	427
2015-16	13,829	936	14,765	16,154	-1,511	11,580	459
2016-17	13,992	1,129	15,121	16,210	-1,223	11,891	456
2017-18	14,900	1,028	15,929	16,137	-361	12,188	468
2018-19	15,497	1,268	16,765	16,517	-24	12,905	523
2019-20	14,551	1,268	15,819	18,522	-2,874	16,554	448
2020-21 (e)	**14,205**	**1,309**	**15,514**	**22,661**	**-7,147**	**23,525**	**438**
2021-22 (e)	13,656	1,258	14,913	18,610	-3,696	26,801	444
2022-23 (e)	14,243	1,278	15,521	18,347	-2,826	28,936	422
2023-24 (e)	15,205	1,207	16,413	18,500	-2,087	30,126	426

(a) Data have been revised in the 2020-21 Budget to improve accuracy and comparability through time.
(b) The real levels are derived using the Consumer Price Index (CPI). The current reference period for the CPI is 2011-12, which means the real levels per capita are reported in 2011-12 dollars.
(e) Estimates.